



COUNTY OF PLACER
Community Development/ Resource Agency

Michael J. Johnson, AICP
Agency Director

ADMINISTRATION

MEMORANDUM

TO: Honorable Board of Supervisors

FROM: Michael J. Johnson, AICP
Agency Director

By: Michele Kingsbury, Senior Planner – Special Projects

DATE: April 22, 2014

SUBJECT: PLACER VINEYARDS OWNERS GROUP-PROPOSED DRAFT FISCAL IMPACT ANALYSIS – DIRECTION ON POLICY ISSUES

ACTION REQUESTED

Staff is requesting that the Board adopt the following recommendations for the Placer Vineyards Specific Plan Fiscal Analysis:

1. Accept the primary recommendations contained within the Economic & Planning Systems, Inc. (EPS) Peer Review – Placer Vineyards Specific Plan Fiscal Impact Analysis dated March 31, 2014;
2. Accept the additional recommendations as contained within the EPS Peer Review – Placer Vineyards Specific Plan Fiscal Impact Analysis dated March 31, 2014; and
3. Direct staff to incorporate the recommendations contained in the EPS Peer Review into staff's review of future amendments and / or modifications of the Placer Vineyards Specific Plan policy documents and / or other related approved entitlements as well as for future individual proposed projects within the Placer Vineyards Specific Plan boundaries.

There is no net County cost associated with these actions.

KEY POLICY QUESTIONS AND DIRECTION

On December 10, 2013, your Board provided policy direction to staff on specific aspects of the Owners Group-proposed draft Finance Plan prepared for the Placer Vineyards Specific Plan (PVSP) project to assist in the reconciliation of the Owners Group-proposed financial documents which will ultimately lead to amendments and / or modifications to the Development Agreement and other appropriate documents.

Staff is now seeking policy direction on assumptions utilized in modeling the development's impacts on project revenue and service costs which will influence the Owners Group updated Fiscal Impact Analysis. Specifically, staff is seeking policy direction on the recommendations included in Peer Review – Placer Vineyards Specific Plan Fiscal Impact Analysis dated March 31, 2014 prepared by

EPS which is attached to this memorandum. The six primary areas EPS recommends changes to assumptions or methodology used in the calculation of the PVSP fiscal impact analysis include:

1. Change the Employee Weighting Factor for all budget cost categories to a factor of 0.50 relative to a resident at 1.00.
2. Maintain the County practice of how it treats surplus revenues in budget categories such as the Road Fund.
3. Maintain the County practice of how it treats General Fund Adjustment Factors from expenditures.
4. Change the average-cost methodology by including efficiency factors for certain department functions as described in Attachment 3 to this memorandum (as opposed to the existing ratio of 1:1 or 100 percent)
5. Eliminate various weighting factors for Countywide or Unincorporated Area costs and instead use a cost factor based on residents or persons served for Countywide or Unincorporated Area.
6. Apply methodology and calculations for sales tax revenue credit as recommend in the attached report generating projected sales tax revenue of \$5.8 million for the project.

In addition, EPS made these additional recommendations for your Board's consideration as well which include:

1. For costs funded from the General Fund contribution to Public Safety, identify and relocate costs to the departments that receive General Fund revenues. Then costs will be allocated in the department that provides services.
2. Eliminate the reversing out process for allocations of charges to and from department and leave costs in the departments that consume the costs.
3. Provide clarity between County and Urban service costs and attempt to create a new template that combines costs into one summary.
4. Seek Board direction regarding the current and future practice of the treatment of existing liabilities (i.e., accrued retirement, OPEB benefits).
5. To calculate assessed values and property tax assumptions, model assessed values in constant dollars (assumes growth with inflation).

The areas requiring your Board's direction are described below with more detailed discussion within the body of this memorandum. Note that staff is seeking direction on assumptions to be used for the preparation of fiscal studies; staff is not seeking actual fiscal numbers. If the Board choses to direct staff to change its fiscal modeling assumptions for Placer Vineyards, staff will work with its outside consultants to update the fiscal model based upon direction received today to determine the resultant fiscal impacts. As noted throughout this staff report, every proposed change in fiscal assumptions may have long - term impacts on not only new development fiscal modeling, but implications to fiscal models of previously approved developments which are now resurfacing, and to future tax sharing negotiations and agreements. To the extent known or anticipated, this report addresses these issues in detail.

BACKGROUND

In 2007, the Board of Supervisors approved the PVSP for the development of up to 14,132 residential units and associated commercial land uses and public facilities. As set forth in the Project Description for the PVSP that was approved by the Board, the project was contemplated to potentially develop as a full-service/stand-alone incorporated city. The mixture of capital facilities and parks amenities, therefore, reflected amenities appropriate for a self-contained city, and included allowances for a City Hall and a large, stand-alone corporation yard.

As the Board is aware, much has changed since the large-scale developments in Western Placer County were approved more than seven years ago. When the Placer Vineyards, Riolo Vineyard and Regional University projects were approved, the County was still experiencing robust development activity in all areas of the County. Since then, the nation - and the Sacramento region - experienced a significant downturn in the economy. While the economy is showing signs of improvement, many in the development community believe that concepts and ideas that were approved in 2007 are no longer feasible in today's development climate.

County staff provided updates to your Board in January and March 2013 regarding West Placer Land Development focusing on land development policies, services, and facilities. County staff estimates this development and other approved projects will significantly increase the unincorporated County service population once the approved developments are built out. However, to date, no units have been constructed in the PVSP development or in any other of the large specific plans in the County. The Placer Vineyards Owners Group (Owners Group) has concluded that many of the initial assumptions concerning the approved project would need to change to allow for a viable development. In 2012, the Owners Group received approval from the Board of Supervisors to modify the project from a single-phase project to a multiple-phase project. The Owners Group now believes it is unlikely that the project will become a free-standing city in the County (although the potential still exists for the project area to incorporate in the future). The Owners Group believes it is more likely that the project will develop as a County project with urban service levels.

On December 10, 2013 your Board provided direction to staff, approving certain assumptions and methodology to update the Finance Plan, to echo the development's change away from a stand - alone city model by reducing the mixture and size of capital facilities and parks. Since then, staff has been working with the Owners Group to reconcile those approved assumptions against previously approved agreements and rectify any outstanding issues regarding implementation. In addition, staff is working with the Owners Group on the framework to implement joint - use recreational facilities with the school district strategy that was presented at the December 10, 2013 Board meeting. Staff has received a Memorandum of Understanding for Development and Use of Center Joint Union School District facilities within the Placer Vineyards Specific Plan. The Owners Group indicated that this document will form the foundation for a more formal and detailed Memorandum of Understanding with the school district. Staff has provided the Owners Group with comments on the draft document to clarify its proposal for the equitable use of the joint use facilities, the timing for formation of the independent park district and transfer of obligations to the park district, and other implementation matters for joint use facility development. A more in depth set of comments will be provided to the Owners Group once the actual more detailed memorandum of understanding is available for review.

This memorandum today outlines the next step for the Owner's Group in bringing this project to fruition. Staff is proposing the Board provide policy direction on certain assumptions recommended by EPS to update the PVSP Fiscal Impact Analysis. Recommended updates are intended to reflect current fiscal analysis standards utilized in the region. The Placer County General Plan, Policy 4.B.6., requires the preparation of a Fiscal Impact Analysis for all major land development projects. The premise of the Fiscal Impact Analysis is to associate the costs for the County to provide the local public services to the new

development to the revenues to the County that would be generated by the development. It is one of many studies or analyses that determine whether or not a development is fiscally feasible. Typically, if there is a gap in revenues to cover costs to serve the development, a Community Facilities District (CFD) can be formed to fund the gap in revenues for the service costs, thus making the development fiscally neutral and in line with General Plan Policy 4.B.3 (which requires that new development pay the cost of providing public services that are needed to serve the new development). If needed, a CFD special tax is there to ensure adequate financial resources are available to the County to provide public services to residents of the Plan Area.

A Fiscal Impact Analysis for the Placer Vineyards Base Plan was prepared by Hausrath Economics Group (HEG) for the County in 2006 as part of the Placer Vineyards Finance Plan and Urban Services Plan (July 2007); that analysis evaluated both the Base Plan and a Blueprint Alternative. In March 2013, the original 2006 Fiscal Impact Analysis for the Base Plan was updated by HEG. HEG's 2013 revised Fiscal Impact Analysis used the Placer County 2011/2012 Placer County Budget, project specific characteristics, and other estimating assumptions as needed to provide a picture of the fiscal impact of the proposed development pending completion of urban service cost estimates by County staff. The main focus of the Fiscal Impact Analysis was to compare projected revenues at full build - out to project costs to serve the development.

Consistent with previous studies, HEG's updated March 2013 analysis provides conservative fiscal impact results based on projecting revenues, before any consideration of offsetting mitigations such as additional taxes, assessments or fees. Any shortfall in revenues to Placer County would be addressed during development agreement negotiations but may include CFD's, one-time fees, and/or on-going special tax or benefit assumptions. HEG's March 2013 analysis concluded that there was an annual combined funds net deficit at full build - out of the project of \$12,255,900 (or \$893 per unit in the plan area). Urban service costs did not factor into HEG's March 2013 analysis because the analysis was a baseline fiscal impact analysis prepared pending completion of urban services cost estimates by County staff. Case studies were implemented for library, roads, fire, sheriff and transit.

One factor that plays a significant role in the revenue calculations for the PVSP Fiscal Impact Analysis is the calculation of general fund revenues derived from increased property tax values that are realized from the development to cover costs. Property tax revenue is the largest source of revenue for a new development to cover its service costs. While this is not an area that is in disagreement by the County and Owners Group, there is a significant distinction with this development versus other developments in the area that is worthwhile to point out.

HEG estimated in its March 2013 analysis that the Plan Area would generate \$6,500,700 in annual property tax revenue at build - out. While this number seems large, it is important to note that the Plan Area lies within five different tax rate areas (TRAs). HEG noted that most of the proposed new development in the Plan Area would occur in the Plan Area TRAs with substantially lower share of the property tax revenue as compared to other areas within the unincorporated County. The table below illustrates the weighted average for the TRAs covering the Plan Area.

TAX RATE FACTORS – weighted average for the tax rate averages for the TRAs covering the plan area.

	General Fund	Library Fund	CSA 28- One l65/Dry Creek
Base Tax Rate Factor	20.09%	0.98%	6.06%
Less ERAF Shift Percent	33.22%	19.08%	7.14%
Net Tax Rate Factor	13.42%	0.81%	5.63%

HEG commented in its analysis that the Plan Area had a weighted tax rate factor average (weighted on the basis of build-out assessed value) that was relatively low for development in unincorporated Placer

County. For comparative purposes, HEG noted that the average County General Fund property tax share throughout unincorporated Placer County is about 29 percent, and ranges from 22 percent (Lincoln) to 29 percent (Rocklin). Property tax revenues to each jurisdiction are further reduced by required contributions to the Educational Revenue Augmentation Fund (ERAF). Calculations for the ERAF impact are noted above. The result of the ERAF reduction is the net property tax share for the Plan Area to the County is just over 13 percent for the General Fund, 0.8 percent for the Library Fund and 5.6 percent for the Fire Fund. HEG concluded in its Fiscal Impact Analysis that "the property tax share to the County General Fund is extremely low, compared to what is typical in most of the rest of the County." HEG further commented that the average General Fund property tax share across other unincorporated areas is 50 percent greater than the share from the tax rate areas that cover the PVSP. Consequently, due to the TRAs associated with this development, the Owner's Group has a lower starting basis for property tax revenue projections to cover costs than most other areas within the unincorporated County.

The Owners Group was provided this information along with the basis of revenue and cost assumptions included in HEG's March 2013 analysis. HEG and DPFG (the fiscal consultant for the Owner's Group) ultimately were in agreement on the following assumptions and calculations:

1. Project land use assumptions;
2. Persons per household;
3. Employment density (building square feet per employee);
4. Finished real estate values (home sale prices and nonresidential values per building square foot);
5. Income levels and taxable spending assumptions for new Project residents;
6. Countywide population and employment estimates (base fiscal year information);
7. Taxable sales per building square foot of Project retail square footages; and
8. Real property turnover rates.

The Owners Group indicated that they are in agreement with various departments on case study expenditure estimates for urban services such as urban law enforcement, project road maintenance costs for project roadways, fire protection and emergency medical project services, and project transit service provision which were available after HEG's original March 2013 analysis.

However, there were several areas in which HEG and the Owners Group differed in their opinions of the assumptions to be used in the fiscal impact analysis. The Owners Group's financial consultant, Development Planning & Financing Group, Inc. (DPFG), stated in a memorandum to the County dated June 4, 2013 the areas in which they requested revisions to the County's fiscal impact model. DPFG met with HEG to review the fiscal impact analysis and its assumptions in detail. On September 23, 2013 and October 15, 2013, DPFG submitted additional memoranda reinforcing its request to change some of the County's fiscal modeling assumptions. HEG issued a memorandum on November 14, 2013 to address the requested change in assumptions and methodology that influence the fiscal impact analysis. As requested by County staff, HEG prepared a fiscal model run with a side - by - side comparison of the HEG's March 2013 model versus a model utilizing DPFG's proposed fiscal model changes. The following presents a side - by - side comparison of the results.

	HEG March 2013 Analysis	Analysis based upon DPFG Assumptions	Difference
Baseline costs to serve the Plan Area			
Countywide	\$12 million	\$12 million	-0-
Unincorporated area services	\$17.8 million	\$2.2 million	(\$15.6 million)
Subtotal	\$29.8 million	\$14.2 million	(\$15.6 million)
Baseline Revenues	\$17.8 million	\$20.3 million	\$2.5 million
Net Baseline Fiscal Impact	(\$12 million)	\$6.1 million	\$18.1 million
Combined Funds Net Deficit Per Unit	(\$893) (per unit deficit over costs)	\$448 (per unit surplus over costs)	

Note all figures are rounded.

Because of the discrepancy in which assumptions to use when preparing the fiscal model, the County agreed to engage a third - party consultant to provide a peer review of the methodology and calculation of the development's fiscal impact based upon typical industry accepted methodologies. EPS was selected to provide the peer review. EPS reviewed the reports and memoranda developed by both HEG and DPFG as well as examined other regional fiscal impact analyses. EPS provided peer review comments to the six (6) areas DPFG requested changes to the County's standard assumptions, and EPS also provided peer comments on other aspects of the County's standard methodology for your Board's consideration. Attachment 1 contains a table which succinctly delineates EPS' recommendations, but overall EPS concluded that it largely supports and even uses in its own fiscal impact analyses many of the same assumptions and modeling techniques used by HEG. The peer review conclusions and recommendation are intended to enhance, clarify and perhaps simplify the County's approach to fiscal analyses. The full EPS report is contained in Attachment 2.

PVSP OWNER'S GROUP PROPOSAL , EPS PEER REVIEW RECOMMENDATIONS & COUNTY STAFF COMMENTS TO RECOMMENDATIONS

The following is a detailed description of each methodology or assumption issue raised by the Owners Group and a peer review response from EPS. EPS provided recommendations for each category for your Board's consideration today. Staff also provided comments from County staff on the potential broader implications to each recommendation. It is important to note that any approval to change County standard approaches used in its fiscal models may impact results of other future fiscal impact analyses. Staff would anticipate that other approved or pending developments, (i.e., Riolo Vineyards and Regional University) may approach County staff requesting that the same fiscal impact modeling assumptions be used to update their fiscal impact analyses. Staff also notes that any approval by your Board to change standard County fiscal impact modeling assumptions may also impact future property tax sharing negotiations and agreements.

1. Employee Weighting Factor – Persons - Served Method

Employee weighting factors are used to determine employee service demands and their associated costs for a project on a resident equivalent basis. It is commonly accepted that an employee does not place the same level of demands on services that a resident does. To determine service demand costs, the employee population is reduced by the weighting factor by multiplying the estimated employee population by the employee weighting factor. Weighting factors used in fiscal impact analyses vary between jurisdictions. For instance, the City of

Roseville historically uses an employee weighting factor of 0.50:1.0 while the County uses factors ranging from 0.24:1.0 to 0.31:1.0 depending upon the budget category. Therefore, for an employee population of 1,000 employees, Roseville's model would equate that to 500 residents, while the County model equates that to 240 to 310 residents depending upon the budget category to factor costs to serve.

EPS noted in its peer review that using expenditures as an example, this method takes the current fiscal year net County costs and divides the cost by the existing County service population to derive at an average cost per existing service population. By changing the employee weighting factor to 0.50 for all budget categories, the analysis increases the service population by which you are dividing the County costs by, thereby reducing the per service population unit cost. The reduced per service population unit cost is then used as a multiplier against the service population in the project to arrive at project service population cost. It is important to note that the project's service population would be consistent by using the same 0.50 factor to equate new employees to residents.

Rather than utilize the County standard weighting factors as noted above, DPFG requested an overall weighting factor of 0.50 employees relative to a resident for all budget categories to be more consistent with how other jurisdictions treat employee weighting factors. Sacramento County (Cordova Hills); City of Sacramento (Railyards); Stockton (Bear Creek East); San Joaquin County (General Plan Update) and Roseville all use 0.50:1.0 employee weighting factors. The following table provides a summary of the relative employee weighting factors used in the fiscal impact analysis between HEG and DPFG.

Budget Category	HEG Employee Weighting Factor	DPFG Requested Employee Weighting Factor
Administrative & Legislative	0.24	0.50
Other Protection	0.24	0.50
Environmental Health	0.24	0.50
Public Ways & Facilities	0.24	0.50
Public Safety	0.31	0.50

EPS reviewed and validated the DPFG research regarding employee weighting factors used by other jurisdictions as mentioned above. EPS recognized that the County's general historical employee weighting factors were based upon an employee-to-resident hours-served basis. CEO fiscal staff clarified that the Public Safety employee weighting factor was derived from a staff analysis of sheriff calls for service and the relative demand on sheriff services attributable to residential and non-residential land uses; however, EPS noted that the County employee weighting factors are below typical industry standards.

EPS RECOMMENDATIONS:

EPS concurs with DPFG and recommends the use of an employee weighting factor for all budget categories of 0.50:1.0 for the PVSP fiscal impact analysis to align the fiscal impact analysis with common industry practices.

Staff commented that the result of changing the County's fiscal modeling assumption to a 0.50 employee weighting factor will reduce a development's per capita cost factors. More costs would be allocated to the non-residential development thereby reducing the cost burden of residential development. The degree to which these costs would be shifted to non-residential development were not analyzed in the peer review. EPS concurred with staff's conclusion that using a factor of 0.50 to equate employees to a resident would shift the incidence of cost more toward non-

residential development, but that the 0.50 factor is commonly used to examine the impact of existing and new employees on an agency's operating budget.

2. Fixed Versus Variable Costs (Efficiency Factors)

The County uses an average-cost approach to estimate project expenditures. The approach assumes the current level of service will be maintained with the future development and assumes the County would experience a linear (or 1:1) increase in service costs for each new person-served. Consequently, this approach assumes that the marginal cost to serve each new person would equal the existing average cost. In this manner, there is no "efficiency or adjustment" factor applied to reflect the fact that some department costs may be fixed and may not increase in a linear manner in response to demands from new development. Conversely there is no adjustment factor if a department's costs substantially increase.

DPFG commented in its memorandum that the HEG fiscal impact analysis calculates all budget categories on the assumption that the County expenditure will increase at a ratio of 1:1 (100 percent efficiency factor). DPFG believes that this assumption is extremely conservative, and not all budget categories will see a cost increase at a 1:1 ratio. DPFG surmised that departments comprised of management, mid and lower-level staff positions will only see an incremental increase in the mid and lower-staff with new development and several budget categories will benefit from economies of scale. (i.e., You do not have to hire an additional Department Director/Assistant Director for every new development project.)

DPFG reviewed nine other regional fiscal impact analyses and agreed that some budget categories may warrant a 1:1 efficiency factor; however, DPFG concluded that other budget categories as noted below warranted a general reduction in the efficiency factor to a 75 percent level or zero percent level if the budget category was evaluated using a case study. The other fiscal impact analyses reviewed by DPFG included: Sacramento County (Cordova Hills); City of Sacramento (Railyards); City of Stockton (Bear Creek East Specific Plan & Delta Cove); City of Oakland (Oak to 9th); City of Fairfield (Train Station Specific Plan); City of Patterson (Villages at Patterson); and Madera County (Tesoro Viejo & Gateway Village). All of the cited fiscal impact analyses used ranges of efficiency factors, from zero percent to 100 percent, depending upon the budget category.

DPFG proposed to use the following efficiency factors for the respective budget categories:

1. 75 percent factor for Administrative & Legislature, Justice & Public Safety, Other Protection and Human Services.
2. Zero percent factor for Contributions to Other Debt Services and Appropriation for Contingencies.
3. Zero percent factor for Library and Police Protection. DPFG proposed an Urban Level of Service Case Study to determine costs.

EPS noted in its peer review that while the County's average-cost method is a common modeling framework for fiscal impact analyses, this approach is conservative in that it does not assume certain departmental costs are fixed costs and therefore are not likely to increase in a linear fashion in response to new growth. This methodology does not take into account departmental efficiencies, economies or diseconomies of scale. EPS further commented that the main reason to consider an efficiency or adjustment factor is to account for that portion of department's or budget unit's function that is fixed as compared to that portion of the cost that is variable. As new development occurs, new residents and employees could have little or no impact on the fixed portion of a department's costs (such as a department head cost) and may only impact that department's variable costs.

EPS surveyed several fiscal impact analyses including those analyses mentioned above as well as analyses for the San Joaquin County General Plan Update and San Ramon Ryan Industrial Property to examine whether the studies included an efficiency adjustment factor and if so what was the factor used and for which department. EPS cautioned that efficiency adjustment factors should be examined on a project by project basis depending on the size of the project. For example, a project expected to increase the overall County population by 3 percent would have a minimal impact, while a project expected to increase the overall population of the County by 50 percent would have a much more significant impact on County operations. Therefore, EPS' recommendations pertain only to the PVSP development, and the review of future project's efficiency factors should be evaluated based upon that project's size and scale to determine appropriate efficiency factors.

EPS RECOMMENDATIONS:

EPS concurred with the Placer Vineyards Owners Group proposal that an adjustment factor of 0.75 (or 75 percent) is appropriate for the following budget categories:

Budget Category

- 1. Administrative & Legislative – Shared*
- 2. Administrative & Legislative*
- 3. Child Support & Other Justice*
- 4. Contribution to Public Safety*
- 5. Other Protection*
- 6. Other Protection – Shared*
- 7. Environmental Health*
- 8. Human Services*

EPS further recommended that given the PVSP's estimated number of persons served as compared to the Countywide population, EPS would support a closer examination and greater efficiency adjustment factor for several individual general government budget functions that are rolled up into the County's Administration and Legislation – Shared, and Administration & Legislation categories. The recommendations are specific to PVSP and EPS recommends that the amount of the adjustment by department function be examined on a case - by - case basis for each new development. Attachment 3 contains a comprehensive list of EPS' recommended adjustment factors for the PVSP.

The County's deliberately conservative approach to efficiency factors is in part due to the higher risk exposure that a County has in comparison to a City to provide necessary safety net services. mandated services such as many health and human services, etc. In addition, there has been concern raised in the large specific plans areas that efficiency factors do not adequately account for potential dis-economies of scale. Any savings from economies of scale may be redirected to such departments that realize a diseconomy of scale due to substantial growth in some service costs. The overall effect of efficiency factors as proposed by EPS is to reduce service costs levied against new development. Staff questioned in particular the efficiency factors recommended to the Justice and Public Safety, Other Protection, Health and Human Services, and Education and Recreations Services budget categories. It is important to note that the fiscal impact analysis did not account for future operational costs related to the new South Placer Jail Facility.

In addition, staff questioned adjusting efficiency factors on a case by case basis as this may open each fiscal impact analysis up for further negotiation by the developer to achieve a desired fiscal result and comments. Staff also noted that the discussion regarding efficiency factors should be

had in context of the larger West Placer proposed development versus on a project by project basis. Staff concluded that its desired method to negotiate the results of a fiscal impact analysis is after disclosing generalized County cost levels, comparing those costs to the revenue characteristics of the project, and developing mutually acceptable means of funding deficits as part of development agreement negotiations.

EPS responded that their standard approach is to broach each public agency on the topic of adjustment factors and in most cases the agencies examine each department and concur with some level of an adjustment factor for specific line items. One could also argue that consideration of Placer Vineyards in the broader context of West Placer development could provide the rationale for adjustment factors insofar as economies of scale could result from serving a larger future West Placer population rather than just an isolated Placer Vineyards Specific Plan. The application of adjustment factors does not impact urban services as these costs were handled separately through a case-study, so the application of the suggested adjustment factors should not change the case - study derived urban service cost estimates.

3. Fiscal Impact Analysis Adjustments

HEG's March 2013 updated fiscal impact analysis included a General Fund cost adjustment factor to account for costs in three internal service funds that were funded by reserves: general liability insurance, workers' compensation insurance, and Countywide automation project costs. In addition, an adjustment was done to account for the one - time use of the Debt Service Fund reserves to offset what would have otherwise been a General Fund obligation. The General Fund cost adjustment factors for these two items were added to the overall projects per capita cost calculation for Countywide services to allocate these shared costs to the departments/budget units providing the services.

HEG discussed with DPFPG that these costs are normally included in the individual budget categories, but in the 2011/2012 budget these costs were highlighted separately and funded with reserve funds due to the County's prudent fiscal management of reserve funds to underwrite certain costs that would have otherwise been passed onto department budgets. Therefore, the costs are normally included in a fiscal impact analysis, but are not highlighted as they were in this fiscal impact analysis due to the funding of these costs through reserve funds.

DPFPG requested that these adjustments be eliminated. DPFPG positioned that this line item was not factored in in the original analysis done when the project was originally approved in 2007 and was not a line item that standardly appeared in other fiscal impact analyses reviewed by DPFPG. DPFPG opined that new development should not be responsible for the County's current overhead costs for general liability insurance, workers compensation, Countywide systems, or debt service.

EPS reviewed the information from HEG and DPFPG and concluded that in most fiscal impact analyses (for other agencies in the region), a line item under these headings is not typically included. However, the fact that it was reflected in this fiscal impact analysis is more indicative of the Great Recession and the budgetary uses of reserves and one-time revenue sources to maintain service levels. The adjustments include one-time funding for operating functions and a single adjustment for capital costs.

EPS did question the inclusion of the Debt Service Fund item in the fiscal impact analysis adjustments because it raised the issue of whether or not new development would have an effect on the County's General Fund contribution to debt service. EPS examined whether any of the County debt was incurred for capital improvements that otherwise would be funded through the County capital facilities. Since this project is conditioned to pay the capital facility fee, EPS raised the issue that if these debt service costs were to cover capital improvements normally covered

under the capital facility fee program, then these costs could be considered duplicative. The debt paid for under this line item can be partially attributed to three projects: 1) Finance and Administration Building (FAB); 2) South Placer Justice Center; and 3) Juvenile Detention and Jail Kitchen. Therefore, EPS determined that the costs may be considered duplicative. EPS noted that any decision on the Debt Service Fund 190 also would apply to the "895350 Contribution to Other Debt Service," which is included in the Administrative & Legislative—Shared category of functions.

EPS RECOMMENDATIONS:

EPS recommended that where operational costs as described above were funded via General Fund revenues in FY2011-12, then the Internal Services Funds costs would have been accounted for in the various departments benefiting from such internal overhead services. EPS concurred with HEG's March 2013 model to keep the adjustments factors in the fiscal impact analysis model.

EPS recommended eliminating the following line item entries from the updated fiscal impact analysis: 89350 General Fund Contribution to Other Debt Service and Debt Service Fund 190. EPS explained that the County's General Fund contribution to debt services is transferred into the Debt Service Fund 190 account, which funds annual debt service obligation for the three capital facilities mentioned above. EPS determined that the costs may be considered duplicative and should not be included in the fiscal impact analysis for Placer Vineyards.

Staff concurs with the EPS finding and concluded that a closer examination of the debt service contribution to insure there is no double-counting with respect to capital facility fees may be justified. Eliminating the debt service cost factor would not make a significant impact on the fiscal impact analysis results.

4. Functions with Negative Net-County Costs

The Owners Group requested that any surplus revenue in overfunded budget categories be credited against overall budget costs. For instance, the Road Fund showed a small surplus in HEG's March 2013 analysis, but the surplus revenue was not included in the analysis. Rather than carry forward a surplus balance to offset other costs, the Road Fund budget category was put to \$0. As a result, this would neither hurt nor help the project's overall Countywide service cost basis. HEG noted that typically any surplus revenues in the Road Fund are retained in that fund and not returned to the General Fund. Thus, the summary of that fund shows a net zero versus a surplus because the surplus is carried over into the next year's budget.

The Owners Group requested that any surplus revenue for any overfunded budget category, including the Road Fund, be a credit against overall costs thereby lowering its overall countywide cost basis. EPS remarked in its peer review that in reviewing other fiscal impact models, there is no clear consensus on how this issue is addressed. In many cases, negative net cost functions are modeled as having no impact and the negative is not counted in the analysis. In certain cases, the negative amount remains in the model and therefore underwrites a portion of the cost that otherwise would be applied through the average cost methodology. If your Board agrees with the Owners Group's request on how to apply these budget categories surpluses, this would lower the Owner's Group Countywide services cost basis and reduce the project's net fiscal impact.

EPS RECOMMENDATION:

Because there is no definitive way in which the industry approaches budget categories with surplus funds in fiscal impact analysis, EPS concurred with HEG's approach on how to treat the

negative net County cost budget categories and does not recommend any changes to the County's approach on this topic. CEO fiscal staff had no comments to this recommendation by EPS.

5. Allocated Costs to Countywide / Unincorporated

The HEG March 2013 fiscal impact analysis divides costs in certain functions into 1) Countywide and (2) Unincorporated categories by applying a percentage allocation for each category to the net-County cost. The allocation percentage is 68 percent to Countywide functions and 32 percent to unincorporated functions. DPFG indicated that no other fiscal impacts analyses reviewed used these allocation percentages and indicated their research showed that out of the seven fiscal impact analyses done since 2002 in the County (Sierra Vista, Creekview, Placer Vineyards, Placer Ranch, and West Roseville), the allocation percentages vary depending upon the project, date and location in the unincorporated County area or within a City.

DPFG proposed using a more common, straightforward method to allocate costs that is more readily used in the industry: allocate all the costs over the corresponding population base (either per person served or per resident served).

EPS examined the previously prepared County fiscal impact analyses as mentioned above and agreed with DPFG that there is variability in the allocation percentages over time. EPS also reviewed fiscal analyses prepared for San Joaquin County, Yolo County General Plan Economic Analysis, Yuba County General Plan Update, and the Cordova Hills Specific Plan. EPS noted that the County is the only agency, or one of a few, that models Countywide and unincorporated expenditures the way they do and that the County method is not the typical industry standard. EPS concluded in its peer review that "Without a very detailed auditing of the time and money spent for each department function on Countywide versus unincorporated – only efforts, most fiscal impact analyses do not make an effort to apportion time spent by general government functions to countywide and unincorporated costs." EPS believes that changing the County approach to one more commonly used in the industry would also reduce discussion regarding the assumptions used to segregate the costs between Countywide and unincorporated functions in future fiscal impact analyses.

EPS RECOMMENDATION:

EPS recommends a more typical, industry standard approach, which was also consistent with the Owners Group proposed methodology to allocate costs over the corresponding population base (either per person served or per resident served).

Staff is particularly concerned with this recommendation. The County has been deliberate in the allocation of costs to Countywide and less-than-Countywide service populations, and the shift in the weight of costs over time is due to increases in Countywide costs resulting from disproportionate growth in the Countywide service population base (i.e., growth in cities). The shift in allocating more costs to the Countywide service population, as proposed by EPS, would increase the Countywide per capita cost factor and therefore increase the public service costs to be funded from available revenue sources in annexations.

EPS responded that the peer review described the practice of allocating costs on a Countywide basis in fiscal impact analyses as very common and concurred that absent any other modeling changes, per capita costs for Countywide functions would increase under this proposed change in assumption.

6. Sales Taxes

The Placer Vineyards Base Plan proposed over 2 million square feet of retail space, which if standard sales per square feet assumptions are applied, could generate over \$780 million in retail sales per year at full build - out. HEG applied a conservative approach in estimating revenues generated from taxable sales. HEG estimated annual generation of sales tax revenue from a regional market area supply and demand analysis. Per capita and project-specific factors were also documented. HEG's analysis compared the potential retail demand represented by spending of the plan area households' and workers to the proposed supply of retail space in the plan area under the Base Plan.

The analysis is based on the assumptions that demand for taxable retail spending would be derived from the following sources:

- Project resident spending
- Project employee spending
- Spending by others outside the Project (capture)
- Business-to-business spending (not part of the methodology challenge)

The analysis examined three "capture-rate" assumptions: no capture, moderate capture, and maximum capture, landing on the moderate capture as the operating assumption. Capture rates reflect the rates in which a project projects to take or "capture" retail sales from those outside the project area.

The HEG analysis also considered the broader context of retail demand and supply associated with the new development throughout West Placer where most growth is expected to occur. HEG calculated the total resident and employee spending at \$243 million. EPS commented that retail sales beyond this project-area demand depended upon capturing additional retail spending from the greater regional market area. HEG concluded that there could be as much as a 40 percent oversupply of retail space planned for the West Placer retail market area. The result of HEG's analysis for sales tax revenue concluded that approximately 64 percent of the projected sales tax revenue was credited to the overall project revenue model, or \$3,746,500 per year.

DPFG proposed in its memorandum that the full amount of projected sales taxes generated by the project be credited to the fiscal analysis by applying a standard rate of sales tax generation per square foot by planned use, including a slight reduction for non-taxable sales. Overall DPFG concluded that its proposed assumption change would bring more in line the methodology for calculating projected sales tax revenue in a fiscal impact analysis, making the project more self-sustaining than HEG's analysis would conclude.

EPS had several discussions with DPFG regarding its statement that industry standard for calculating sales tax revenue attributable to a project is the full amount of projected sales taxes generated by the project by applying a standard rate of sales tax generation per square foot by planned use, including a slight reduction for non-taxable sales. EPS agreed with HEG that the typical first approach to calculating sales tax revenue attributable to a project is to first look at the Project's demand by residents and employees and that HEG's conclusions generally fell within expected ranges and reflects typical industry standards and methods and did not concur with DPFG's aforementioned statement.

EPS further evaluated the sales tax analysis to determine the potential oversupply of retail land uses, using three approaches: comparison of taxable retail demand and supply; regional comparison of retail space per capita; and regional comparison of taxable sales per capita. EPS

found that only the Sierra Vista Specific Plan, which had more regional retail square footage, has a higher taxable sales per building square foot assumption. EPS demonstrated that the Project's per capita supply of neighborhood and community commercial uses is comparable to surrounding plan areas. However, the Project's retail land uses include a substantial regional commercial component. Both PVSP and the Sierra Vista Specific Plan propose regional retail fronting along Baseline Road and expect to capture regional demand at each respective planned regional commercial center. EPS reviewed information from Sierra Vista Community Plan, Creekview, Cordova Hills, Sutter Pointe Specific Plan, Marble Valley Specific Plan, Sacramento Railyards Development, and Dunnigan Specific Plan to arrive at its conclusions.

EPS concluded that HEG's March 2013 fiscal impact analysis correctly identified a potential oversupply of retail in the project and that total taxable sales generation ultimately will depend on the degree to which the Project can attract retail spending by residents outside the Project area. EPS noted that the PVSP is immediately north and west of the existing Dry Creek/West Placer and north Sacramento County which are significantly underserved from a retail perspective. EPS also analyzed impacts from university and visitor spending attributable from the Regional University Specific Plan. HEG's March 2013 analysis did not factor these assumptions into its analysis to determine the appropriate rate of outside Project retail capture. EPS' additional analysis determined that the Project should be attributed annual sales tax revenue of \$5.8 million.

EPS RECOMMENDATIONS:

EPS agreed with HEG's supply and demand approach to analyzing the revenue generation from taxable sales. EPS took the analysis one step further regarding outside capture of retail sales above and beyond what the project residents could support by examining the lack of retail supply serving Dry Creek community plan and north Sacramento. In addition, EPS factored in outside capture of retail sales from the Regional University development and visitor spending to support its conclusions about the amount of taxable sales attributable to the development. The peer review noted that, based on information gathered by EPS and on the quantitative and qualitative factors detailed in its review, the range of potential regional retail capture would be between 50 and 70 percent. In preparing an updated Project fiscal impact analysis, EPS recommends using for the Placer Vineyards fiscal impact analysis total taxable sales figure of \$579.1 million, which reflects a 60 percent capture for the Project's regional retail uses. This also equates to \$5.8 million in annual sales tax revenue.

Staff notes that the future retail demand and supply in all of West Placer County was the basis for the more conservative assumptions chosen for the draft March 2013 fiscal impact analysis. Staff questioned the EPS peer review and commented that the report neglects to mention Roseville's prominence in regional sales supports that same underserved market. EPS responded that they affirmed the County's approach to comparing demand and supply of retail sales as the most appropriate approach to estimating future taxable sales resulting from Placer Vineyards Specific Plan. The Board may, in its discretion, consider additional retail market analysis to further inform this issue.

OTHER PEER REVIEW COMMENTS

EPS further commented on areas that were not brought up by DPGF, but are reflective of EPS' familiarity with the County model and are suggestions for Board consideration based upon assumptions commonly used by other jurisdictions for the Placer Vineyards fiscal impact analysis. In particular, discussion regarding changing the method in which property tax revenues would be calculated ultimately increases the revenues that may be attributable to a project.

- a. **General Fund Contribution to Public Safety** – The County fiscal impact model allocates this General Fund Contribution to Countywide and unincorporated service populations. EPS suggested for future County fiscal impact modeling to carry a zero net cost in the General Fund, and to show the net County costs funded by this General Fund contribution directly in the departments to where the funding was directed. EPS believes that by displaying the costs in the department where the funding was directed would be easier to understand than the current approach.
- b. **Allocations of Charges to and from Departments** – EPS noted that the County's fiscal impact model uses a very complicated system of calculations used to “reverse out” internal service fund charges to and from various County department to one another. Typical examples include human resources, information technology, finance, administration, etc. EPS recommended that if the County elects to maintain the practice of allocating certain general government functions to both countywide and unincorporated service populations, then EPS recommends leaving the net County costs in the department where they were “consumed” rather than in the department from which they originated. This enables the application of department efficiency, service population factors, and other items related to impacts on the department to apply to all costs associated with that department.
- c. **Create Greater Transparency between Baseline County and Urban Services Costs** – EPS noted that as the County has examined the fiscal impacts of several large master-planned communities in the southwest region of the County, great strides have been made regarding the distinction between “baseline” County services and “urban” services. It is not easy for a reader of fiscal impact analyses to understand the distinction between County baseline services and urban services. In cases where a case-study approach is used to estimate Urban Service costs, EPS recommends the document include a clear roadmap as to which Baseline County cost is being replaced by the Urban Service cost. This comment obviously only applies to a project like the PVSP and would not be applicable to an analysis examining a city annexation of County property.
- d. **Consider Policy Direction Regarding Treatment of Existing Liabilities** -The HEG March 2013 draft fiscal impact analysis is consistent with other County fiscal impact analyses in that it included average cost obligations for the following existing County liabilities: Contribution to Other Debt Service and Other Post – Employment Benefits (OPEB) Liabilities. The Board of Supervisors may consider providing policy guidance to staff about whether all or a portion of these costs should be considered to be impacted by new development. Future analysis and policy direction would provide clarity regarding the County's preference on the treatment of these costs in future fiscal impact analyses.
- e. **Assessed Value and Property Tax Revenue Assumptions** – HEG's March 2013 fiscal impact analysis shows all dollar values in constant 2012 dollars. EPS noted that this fiscal impact analysis is consistent with other County fiscal impact analyses in that this analysis assumes that assessed values and, in turn, property tax revenues will lose ground against inflation over time. The HEG's fiscal impact analysis indicates that this is a conservative approach that best reflects the actual results under Proposition 13. Due to the difficulty in predicting variables and the sensitivity of results to the assumptions, EPS noted that they opt for a simpler method of modeling today's assessed values to estimate future property tax revenues. EPS uses current assessed values in constant dollars and presumes future property tax revenues would change proportionally with future expenditures. Re-examining this approach is important for PVSP in particular, given its low property tax base compared to other areas of the County. Changing the approach to calculating property tax revenue would provide higher property tax revenue to the development. The cumulative effects to the fiscal analysis by changing this approach have not

been vetted. EPS concurred with staff comments that this change in approach implies a higher property tax revenue base for the Placer Vineyards development.

The Owner's Group has reviewed the attached report prepared by EPS; and, while EPS did not concur with the entire Owner's Group recommendations for changes to its fiscal modeling assumptions, the Owner's Group is accepting of all conclusions recommended by EPS.

BROADER ISSUES

As the economy is beginning to show signs of recovery, developments that were put on hold during the recession are now ready to move forward. Negotiations with the development community on County Fiscal Impact Analysis, Capital Facility Plans, and other development agreements continue on parallel fronts. Concurrent to negotiations with the Owners Group, discussions are on-going with the Placer Ranch Owners Group, Bickford Ranch, and Riolo Vineyard, all with similar questions and challenges to County historical assumptions and methodology. While the assumptions are conservative and in the context of historical economic and development climate are reasonable, the question posed by the development community today is whether or not the assumptions are reflective of the current economic dynamic that challenges the fiscal feasibility of projects. Developers are looking for consistency between jurisdictions on the assumptions and methodology included in fiscal impact analysis to evaluate every new development to ensure an equal playing field in this very competitive development arena. Staff acknowledges that there will always be a balancing act with each new development to ensure the assumptions are consistent, but reflective of each project's unique attributes and product types.

If the Board accepts EPS' recommendations for the Placer Vineyards fiscal impact analysis, staff would anticipate that other developments will approach County staff requesting that the same fiscal impact modeling assumptions be used to update their fiscal impact analyses. While the recommendations are specific to Placer Vineyards, as requested, staff would evaluate other development requests on a case-by-case basis to determine which recommendations may be applicable or not to other developments. County models tend to be inherently conservative due to the greater risk Counties face to provide safety net services versus the risk exposure to a City. It is important to reiterate that each change in assumption or methodology has implications to current and future fiscal impact analysis negotiations and of tax sharing agreement negotiations. Staff anticipates that any approved changes to the fiscal modeling assumptions for Placer Vineyards will then be sought by other pending developments including Riolo Vineyards and Regional University.

General Plan Policy 4.B.3. requires that new development pay the cost of providing public services that are needed to serve the new development. The Owners Group, as stated above, is accepting of the conclusions and recommendations presented by EPS in its peer review and feels these changes will make its project more competitive with adjacent development. If the Board directs staff to incorporate these assumption changes into the fiscal model update, a formal fiscal impact analysis will be completed which includes both baseline Countywide costs and urban service costs. Any gap in revenues to cover costs to serve the development may be covered by a Community Facilities District or other funding mechanism, thus making the development fiscally neutral and consistent with the aforementioned General Plan Policy.

FISCAL IMPACT

As discussed above, there is a need for policy direction regarding the Owners Group-proposed changes to assumptions and methodology for the updated Fiscal Impact Analysis for the PVSP. Based upon policy direction from the Board, County staff will meet with the Owners Group to refine fiscal issues so that staff can thoroughly analyze and assess the fiscal impacts, and prepare an updated Fiscal Impact Analysis reflective of the direction received today.

CEQA COMPLIANCE

As set forth in this report to the Board, staff is seeking direction on specific aspects of the Placer Vineyards Specific Plan project to allow for the continued implementation of the project. A Final EIR (SCH # 1999062020) was certified for the Placer Vineyards Specific Plan in 2007 and an addendum to the FEIR was adopted in 2012. Pursuant to CEQA Guidelines section 15095, staff relies upon said environmental analysis in this report. A copy of the Final EIR is retained in the Community Development Resources Agency and is available on-line:

<http://www.placer.ca.gov/departments/communitydevelopment/planning/pvineyards>.

Future amendments and/or individual proposed projects within the Specific Plan boundaries will be evaluated separately for CEQA compliance

CONCLUSION

As highlighted in this report, staff and the Owners Group have worked collaboratively to address issues that are of concern to the Owners Group. While much work remains, receiving policy direction from the Board will allow staff and the Owners Group to continue addressing these project-specific issues.

It is important to note that, based upon the direction provided by the Board regarding certain policy issues, the new policy direction may well result in additional changes to other previously approved documents (i.e. the Development Agreement). Ultimately, based upon Board direction, staff anticipates that there may be substantial revisions required to other project-related documents/approvals that will include renegotiation of essential terms and/or obligations of the parties.

RECOMMENDATION

Staff is requesting that the Board adopt the following recommendations:

1. Accept the primary recommendations contained within the Economic & Planning Systems, Inc. (EPS) Peer Review – Placer Vineyards Specific Plan Fiscal Impact Analysis dated March 31, 2014:
 - a. Change the Employee Weighting Factor for all budget cost categories to a factor of 0.50 relative to a resident at 1.00.
 - b. Maintain the County practice of how it treats surplus revenues in budget categories such as the Road Fund.
 - c. Maintain the County practice of how it treats General Fund Adjustment Factors from expenditures.
 - d. Change the average-cost methodology by including efficiency factors for certain department functions as described in Attachment 3 to this memorandum (as opposed to the existing ratio of 1:1 or 100 percent)
 - e. Eliminate various weighting factors for Countywide or Unincorporated Area costs and instead use a cost factor based on residents or persons served for Countywide or Unincorporated Area.
 - f. Apply methodology and calculations for sales tax revenue credit as recommend in the attached report generating projected sales tax revenue of \$5.8 million for the project.
2. Accept the additional recommendations as contained within the EPS Peer Review – Placer Vineyards Specific Plan Fiscal Impact Analysis dated March 31, 2014:
 - a. For costs funded from the General Fund contribution to Public Safety, identify and relocate costs to the departments that receive General Fund revenues. Then costs will be allocated in the department that provides services.
 - b. Eliminate the reversing out process for allocations of charges to and from department and leave costs in the departments that consume the costs.
 - c. Provide clarity between County and Urban service costs and attempt to create a new template that combines costs into one summary.

- d. Seek Board direction regarding the current and future practice of the treatment of existing liabilities (i.e., accrued retirement, OPEB benefits).
 - e. To calculate assessed values and property tax assumptions, model assessed values in constant dollars (assumes growth with inflation).
- 3. Direct staff to incorporate the recommendations contained in the EPS Peer Review into staff's review of future amendments and / or modifications of the Placer Vineyards Specific Plan policy documents and / or other related approved entitlements as well as for future individual proposed projects within the Placer Vineyards Specific Plan boundaries.

ATTACHMENTS:

Attachment 1: Summary of Recommendations

Attachment 2: EPS Peer Review Study

Attachment 3: EPS Recommended Adjustment Factors

cc: David Boesch, County Executive Officer
Holly Heinzen, Chief Assistant County Executive Officer
Jerry Carden, County Counsel
Karin Schwab, Deputy County Counsel
Allison Carlos, Principal Management Analyst
Al Johnson, Representative of Placer Vineyards Owners Group
Kent MacDiarmid, Representative of Placer Vineyards Owners Group

Category	Current County FIA Practice	PVSP Proposed Methodology Change	EPS Recommendation	CEO Fiscal Staff Comments
EPS PEER REVIEW PRIMARY RECOMMENDATIONS				
Employee Weighting Factor - Persons Served Method	Employee = 0.24 of a resident for all functions excluding Public Safety Employee = 0.31 of a resident for public safety functions	Employee = 0.50 of a resident for all functions	Employee = 0.50 of a resident for all functions	<ol style="list-style-type: none"> 1. The end result will reduce a development's per capita cost factors. 2. More costs would be allocated to the non-residential development thereby reducing the cost burden of residential development. 3. The degree to which these costs would be shifted to non-residential development was not analyzed in the peer review.
Fixed versus variable costs – efficiency factors	No adjustments made for fixed costs	Use adjustment factors in analysis.	Use adjustment factors in as proposed by EPS in Attachment 3. EPS recommendations are only for PVSP due to its scale and project characteristics.	<ol style="list-style-type: none"> 1. Efficiency factors do not account for potential diseconomies of scale. 2. Overall effect of efficiency factors is to reduce service costs levied against new development. 3. Examining efficiency factors on a case-by-case basis are not in context of the broader service populations increases proposed for West Placer County.
Fiscal Impact Analysis adjustment	FY 2011-12 Budget included such costs.	Remove costs.	Include adjustments when applicable. Applied to General Fund costs for general liability insurance, workers' compensation insurance and countywide automation project. Consider eliminating contribution to debt service if duplicative.	<ol style="list-style-type: none"> 1. A closer examination of the debt service contribution may be warranted to ensure no double counting is taking place. 2. Overall impact of this recommendation would not make a significant difference in the fiscal impact analysis results.

Functions with Negative Net County Costs	When included as part of a grouped budget unit, the negative cost underwrites the cost of the overall function. When stand – alone, a function with a negative costs is modeled as "no impacts."	Apply all negative costs as credits against all service costs.	Use current Practice.	No comments.
Allocated Costs to Countywide / Unincorporated	Allocate by percentage bases for each dept. unit, allocating the cost to either a countywide or unincorporated population base (68% to 32% respectively)	Separate unincorporated only costs to unincorporated service population. All other costs allocated on a countywide basis.	Separate unincorporated only costs to unincorporated service population. All other costs allocated on a countywide basis.	<ol style="list-style-type: none"> 1. Shift in allocating costs to the Countywide service population would increase the Countywide per capita cost factors. 2. Shift in approach would translate an increase in the public service costs to be funded from available revenue sources in annexations.
Sales Tax Revenue Estimating	Compare demand and supply to inform sales tax revenue estimates. Consider sensitivity analysis given magnitude of sales tax to total General Fund revenues	Give sales tax revenue credit by square foot for entire supply of retail/commercial space.	Use current practice of comparing demand and supply. EPS recommends "moderate capture" sales tax scenario.	<ol style="list-style-type: none"> 1. Staff did not feel that the peer review took into account the broader context of West Placer County planned retail development and oversupply estimates. 2. Staff did not feel the prominence of Roseville's regional retail market that serves the same underserved market noted in the peer review was considered.
ADDITIONAL EPS PEER REVIEW RECOMMENDATIONS				
General Fund Contribution to Public Safety	Allocate contribution to Countywide and unincorporated service populations.	Not applicable	Show the net County costs funded by the General Fund contribution directly in the departments to where the funding was directed.	
Allocation of charges to and from departments	Reverse out internal service fund charges to and from various County departments to one another.	Not applicable	Leave the net County costs in the department where they were consumed rather than the department from which	

			they originated.	
Create greater transparency between baseline County and urban service costs	Not applicable	Not applicable	Attempt to create a new "template" that combines costs into one summary.	Due to the limited scope of the November 2013 fiscal comparison utilizing DPFG's proposed assumptions this was not done.
Consider policy direction regarding treatment of existing liabilities	All General Fund Costs are allocated to new development.	Not applicable	Board may consider policy direction on how existing liabilities are treated with new development.	Broader policy discussion with the Board and more analysis / information would be required to vet this proposal.
Assessed value and property tax revenue assumptions	Assessed value and property tax revenue lose ground against inflation.	Not applicable	Model assessed value in constant dollars (assumes growth with inflation).	<ol style="list-style-type: none"> 1. Ultimately serves to increase the revenue available to support new development and favors the developer. 2. Cumulative effect of changing this approach has not been vetted.

MEMORANDUM

To: Michael Johnson
Michele Kingsbury

From: Jamie Gomes and Richard Berkson

Subject: Peer Review—Placer Vineyards Specific Plan Fiscal Impact Analysis; #EPS 142008

Date: March 31, 2014

The Economics of Land Use



Placer County (County) engaged Economic & Planning Systems, Inc. (EPS) to peer review the Placer Vineyards Specific Plan (Project) Fiscal Impact Analysis (FIA). The Draft Project FIA¹ was prepared for the County by Hausrath Economics Group (HEG), who has prepared numerous development-related fiscal impact analyses on behalf of the County for many years. EPS is familiar with the County's (and HEG's) fiscal impact analysis methodology, having worked on several of the entitlement projects in the southern portion of the County and in West Roseville during the last decade.

EPS understands the Placer Vineyards Owners' Group (Owners' Group) has hired a consultant, Development Planning & Financing Group, Inc. (DPFG), to review and comment on the Draft Project FIA. Through a series of memoranda, DPFG has provided comments and suggested changes for County consideration. In November 2013, HEG prepared a Draft Project FIA with Urban Services,² incorporating each of the proposed DPFG assumptions, along with updated estimated costs for Project urban services.

Purpose of the Memorandum

At the County's request, EPS has reviewed the Draft Project FIA, as well as subsequent DPFG memoranda. This memorandum summarizes EPS's peer review of the Draft Project FIA and DPFG comments thereto. In this document, EPS also provides additional peer-review comments to the Draft Project FIA not addressed by the DPFG comments.

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¹ Dated March 20, 2013.

² Dated November 14, 2013.

Overview—Fiscal Impact Analyses

Fiscal impact analyses are a common tool used by public agencies to measure the effect, or impact, of a project on that agency's operating budget. Typically, fiscal impact analyses will examine the public agency's main operating budget, such as the General Fund. However, depending on how an agency has organized its operating functions, fiscal impact analyses may examine more than one operating fund. For example, County fiscal impact analyses report the estimated operating results of a project for the following funds:

- General Fund
- Public Safety Fund
- Transit Fund
- Library Fund
- Road Fund

Fiscal impact analyses for any county are more complicated than a comparable analysis of a city budget because counties provide a variety of services to its residents and employees. Some of those services are provided to all countywide residents, including those living in the county's incorporated cities. Examples of countywide services include health and human services, district attorney, detention, and probation. In other cases, counties only provide certain services to their unincorporated area service populations, such as law enforcement patrol services.

County Requirements

County General Plan policy 4.B.6 requires that any major development project, defined as a project greater than 100 units, requires preparation of a fiscal impact analysis for the proposed project. In addition, the County Financial Policies include several principles that exemplify sound financial management and relate to the perspective of a fiscal impact analysis that is based on the County's budget. Related County Financial Policies include the following policies (relation to fiscal analysis in *italics* and parenthesis):³

- **2.2.1.** Ongoing costs will be funded with ongoing revenues to promote fiscal stability, predictability, and sustainability, and to support long-range planning (*fiscal analysis models ongoing costs and revenues*).
- **2.3.6.** Efficiency and economy in the delivery of County services are top priorities; departments are expected to make productivity improvements within their service delivery areas and reduce expenditures for discretionary programs and services (*fiscal analysis could consider fixed versus variable costs*).
- **2.3.9.** The General Fund's Appropriation for Contingencies should be budgeted at not less than 1.5 percent of the operating budget (*fiscal analysis includes 1.5-percent General Fund contingency*).

³ County Final Budget, Fiscal Year 2013–14.

Underlying Assumptions

When completed, fiscal impact analyses reflect the most current financial dynamic that exists between state and local governments. This is often referred to as the existing state-local fiscal relationship. In fiscal impact analyses it prepares, EPS includes the following language describing related assumptions:

This fiscal analysis is based on the jurisdiction's adopted operating budget, tax regulations, statutes, and other supplemental information from the jurisdiction. Each revenue item is estimated based on current State legislation and current jurisdiction practices. Therefore, the analysis reflects the current state-local fiscal relationship as it exists at the time the analysis was completed. Future changes by either State legislation or local jurisdiction practices may affect the revenues and expenditures estimated in this Analysis.

Because it is impossible to anticipate future changes in the state-local fiscal relationship, reflecting the current rules and regulations is the most prudent approach. That being said, the implicit assumption in any fiscal impact analysis is that the state-local fiscal relationship remains consistent in the future. Given the breadth of state-mandated county-provided services, counties may have greater risk exposure with this assumption as compared to cities.

Indicator of Fiscal Impacts

Fiscal impact analyses are useful tools, helping to indicate whether a given project may have a positive or negative impact on the jurisdiction's operating budget and, if so, in what general magnitude. Many jurisdictions, such as the County, require fiscal impact analyses for all new development or reuse projects. In many cases, the fiscal impact analyses are used by the jurisdiction to determine whether, and to what extent, fiscal mitigation may be required.

Because fiscal impact analyses rely on several assumptions and calculations, they are not expected to be an exact measurement of project fiscal impacts. Many practitioners assert a project may be considered fiscally neutral if the results of the fiscal impact analysis fall within a range of between approximately 5 and 10 percent of estimated annual operating expenses, either positive or negative. For example, if a project was estimated to have a \$100,000 annual deficit on an annual expenditure of \$2.0 million, then that project may be considered fiscally neutral because the estimated deficit equals 5 percent of the \$2.0 million annual expenditure estimate.

Sensitivity Analysis

In many fiscal impact analyses, a small set of revenue or expenditure items often comprise a large percentage of the total revenues or expenditures. For example, in the Draft Project FIA, property tax and sales tax revenues comprised approximately 90 percent of discretionary General Fund revenues. Because of this phenomenon, jurisdictions and fiscal impact analyses practitioners often rely on the use of sensitivity analyses. The purpose of sensitivity analyses is to evaluate the change in the results of an analysis based on changes to key assumptions. The sensitivity analysis reflects how sensitive the results of an analysis are to changes in key assumptions (i.e., key revenue or expenditure assumptions in fiscal impact analyses).

Project Description

The Project, which covers approximately 5,000 acres of land in the unincorporated County, is slated for a mix of residential and nonresidential land uses. The Project is based on an assumed approximately 14,132 new residential units, ranging from low density (2-6 units per acre) to high density (7-21 units per acre). Residential development is planned to accommodate approximately 32,814 new residents at buildout. The Project also includes area for approximately 2.2 million square feet of retail development and another approximately 1.4 million square feet of office/business park development.

As described herein, the Draft Project FIA calculates the Project's persons-served in two ways. Residents are counted one-for-one and Project nonresidents are counted as 0.24 of a resident for non-public safety functions and 0.31 of a resident for public safety functions. The table below summarizes the Project and countywide persons-served.

Service Population	Project	Countywide	Project as % of Countywide
Residents [1]	32,814	355,328	9.2%
Countywide Residents & Employees (excl. Public Safety) [2]	34,578	390,296	8.9%
Countywide Residents & Employees—Public Safety [3]	35,093	400,495	8.8%

[1] Residents per Project proponents. Draft Project FIA used 30,198.

[2] Employees are weighted as 0.24 of a resident.

[3] Employees are weighted as 0.31 of a resident.

The Project persons-served of approximately 35,000 represents approximately 8.9 percent of the current countywide persons-served.

Peer Review Conclusions and Recommendations

The Draft Project FIA is a comprehensive fiscal impact analysis incorporating many state-of-the-art methods and approaches. The Draft Project FIA is well documented, thorough, and, with limited exceptions, easy to determine how the results of the analysis were derived. The Draft Project FIA relies on a County fiscal analysis model that is the result of many hours of effort to construct, maintain, and update annually to reflect current budgets and dynamics of the state-local fiscal relationship.

As stated in the Draft Project FIA, the analysis "provides a comprehensive overview of the average annual cost to provide current levels of service—measuring what the County budgets to spend in any given year against service demand represented by population and/or population and employment."⁴ As is typical with most fiscal impact analyses, the Draft Project FIA is

⁴ County Final Budget, Fiscal Year 2013–14, page 2.

conservative in its revenue estimates (avoids overestimating revenues) and in its expenditure estimates (avoids underestimating costs).

For a majority of the assumptions and methodology in the Draft Project FIA, EPS supports and uses many of the same assumptions and modeling techniques as incorporated therein. The peer-review conclusions and recommendations in this memorandum are intended to enhance, clarify, and perhaps simplify the County's approach to fiscal impact analyses as it relates to the Project and to future land development applications.

Table 1 is a matrix summarizing the main peer-review considerations and recommendations. As shown in **Table 1**, some of the suggested modeling changes in this peer-review memorandum could be considered suggestions that could apply to all future County fiscal modeling. For example, the suggestion to use 0.5 to equate a new employee to a new resident could be a suggestion that could be universally applied to all future fiscal models. Whereas, other peer-review comments may be applicable to all future County fiscal models but the values used could vary depending on the circumstances of the project being analyzed. As an example, using an adjustment factor to recognize certain department costs are fixed may be applicable to all future analyses, but the amount of adjustment for certain department functions might be different each time, depending on specific project circumstances.

Review of General Assumptions and Case-Study Expenditure Estimates

Although not specifically the focus of this memorandum, EPS has reviewed general Draft Project FIA assumptions to ensure they are consistent with typical industry practices. HEG and DPGF are in agreement with the following list of assumptions:

- Project land use assumptions
- Persons per household
- Employment density (building square feet per employee)
- Finished real estate values (e.g., home sales prices and nonresidential values per building square foot)
- Income levels and taxable spending assumptions for new Project residents
- Countywide population and employment estimates (base fiscal year information)
- Taxable sales per building square foot of Project retail square footages
- Real property turnover rates

EPS agrees that the above-listed assumptions for the Project appear reasonable and could be considered typical by industry standards.

Table 1
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Summary of Fiscal Impact Analysis Peer Review Issues and Recommendations

Peer Review Issue/Comment	Current Practice	Recommended Action	Applicability to Future Analyses	
			PVSP	Future FIAs
PEER REVIEW ISSUES				
1 Persons-Served Method	Employee = 0.24 of a resident all functions excluding public safety Employee = 0.31 of a resident for public safety functions	Use Employee = 0.5 of a resident for all functions.	Yes	Yes
2 Fixed versus Variable Costs - Adjustment Factors	No adjustments made for fixed costs.	Use adjustment factors for PVSP (Table 3)	Yes	Yes - Variable
3 Include Fiscal Analysis Adjustments [1]	FY 2011-12 Budget included such costs	Include for PVSP. Include if applicable in future	Yes	Yes - Variable
4 Functions with Negative Net County Costs	When included as part of a grouped budget unit, the negative cost underwrites the cost of the overall function. When stand-alone, a function with a negative cost is modeled as "no impact."	Use current practice	Yes	Yes
5 Expenditure Multipliers - Countywide and Unincorporated	Segregate costs between two categories major function by function.	Separate unincorporated only costs to unincorporated service population. All other costs allocated on a countywide basis.	Yes	Yes
6 Sales Tax Revenue Estimating	Compare demand and supply to inform sales tax revenue estimates. Consider sensitivity analysis given magnitude of sales tax to total GF revenues.	Use current practice of comparing demand and supply. This analysis recommends "Moderate Capture" sales tax scenario.	Yes	Yes - Variable
ADDITIONAL COMMENTS				
1 General Fund Contribution to Public Safety	General Fund cost apportioned countywide and unincorporated based on estimated proportionate share of costs between two service populations	Identify and relocate costs in departments that receive GF revenues. Then costs will be allocated in the department that provided services.	Yes	Yes
2 Allocation of Charges to and from Departments	Costs are "reversed out" and put back in department generating costs versus being left in the department that "consumed" the cost.	Eliminate the "reversing out" process and leave costs in department consuming the cost.	Yes	Yes
3 Greater Transparency - County and Urban Services Costs	Each project is handled in a slightly different manner given project circumstances	Attempt to create a new "template" that combines costs into one summary	Yes	Yes - Variable
4 Treatment of Existing Liabilities	All General Fund costs are allocated to new development.	Seek Board of Supervisors direction regarding current and future practice	T.B.D.	T.B.D.
5 Assessed Value and Property Tax Assumptions	Assessed value and property tax revenues lose ground against inflation	Model assessed value in constant dollars (assumes growth with inflation)	Yes	Yes

"summary"

[1] See text for exclusion of General Fund contribution to debt service.

Case-Study Expenditure Estimates—Urban Services

The Draft Project FIA did not originally include or address urban services costs. In a subsequent Draft Project FIA with Urban Services, the County included estimated urban services costs organized by the following County operating funds/service categories:

- Public Safety Fund—urban law enforcement
- Road Fund—project road maintenance costs (Project roadways)
- Fire Protection Services—fire protection and emergency medical
- Transit Services—transit service provision

EPS understands the urban service case-study expenditure estimates reflect department-requested service levels. Because the original Draft Project FIA excluded these costs, and all DPFG memoranda had not raised any issues with the Draft Project FIA's urban services case studies, this memorandum excludes a review of those case-study estimating methodologies and resulting expenditure estimates.

Peer Review of Draft Project FIA Methodology

Beginning with the April 20, 2013, memorandum and in subsequent memoranda, DPFG has articulated several questions and concerns with the Draft Project FIA methodology. The following sections describe each methodological approach in question, followed by a summary of the EPS findings and recommendations regarding the Draft Project FIA assumptions and methodologies.

Issue 1—Persons-Served Method

The Draft Project FIA uses an average-revenue and average-cost method to forecast many of the Project revenues and costs. Using expenditures as an example, the method takes the current fiscal year net County cost and divides that cost by the existing County service population to derive an average cost per existing service population. The employee weighting factor is always consistently applied to both the existing service population and the Project service population.

DPFG questions the Draft Project FIA's use of 0.24 and 0.31 as weighting factors for the Project's nonresidential employees. DPFG cites a more typical standard employee weighting factor for nonresidential employees of 0.5.

Findings

EPS has reviewed and validated that the DPFG research regarding employee weighting factors is correct. In the nine fiscal impact analyses cited by DPFG, each of them used an employee weighting factor of 0.5, rather than lower factors. **Appendix A** includes a short narrative used to describe why EPS historically has used 0.5 as the employee weighting factor. Recognizing that the County's 0.24 and 0.31 employee weighting factors are based on an employee-to-resident hours-served basis, these factors are below typical industry standards for use in fiscal impact analyses.

Recommendation

EPS recommends the use of an employee weighting factor of 0.5 for the Draft Project FIA to align the Draft Project FIA with common industry practice (see **Table 2**). While the 0.5 factor does not coincide with "hours served," EPS believes other factors, besides the exact number of standard work hours in a week, play a much more significant role in determining the impact of commercial uses; these factors are difficult to predict and do not necessarily coincide with work hours. For example, levels of patronage, likelihood of property-related crime or hazardous activity, magnitude of traffic and traffic patterns, and value of property are significant factors largely unrelated to work hours in a week.

Issue 2—Fixed versus Variable Costs (Efficiency Factors)

As documented, the Draft Project FIA employs an average-cost approach to estimate Project expenditures. An average-cost methodology is a common methodology used in fiscal impact analyses that divides the agency's net cost of service, for a given service function, by the service population to which that service is provided. In this manner, the average-cost method is based on the assumption that the marginal cost of agency services to new Project residents and employees would equal the agency's existing average-cost structure.

While the average-cost method is a common modeling framework for fiscal impact analyses, this approach is conservative in that it is based on certain assumed fixed costs, which are not likely to be affected by growth, and which would increase in a linear fashion in response to new growth. For example, it is unlikely that an agency's legislative functions (e.g., its governing body and clerk functions) would increase in a linear 1:1 fashion as a result of new development because, for example, the size of the board would not change as a result of new development. The point is that there are certain fixed costs that would not be impacted by new growth, compared to certain variable costs such as staffing levels, which would increase.

Similarly, the average-cost methodology does not account for departmental efficiencies that occur as an agency's population grows. Because some costs are fixed and efficiencies can be achieved at a greater scale, costs for certain departments/functions would not increase on a 1:1 basis once a certain size is achieved. For example, an agency's legal counsel's office could experience some increased activity as a result of the Project, but that increase should not occur on a 1:1 basis as assumed using an average-cost approach. The magnitude of efficiencies will depend in part on whether a department has any capacity to provide additional services that may be required by new development. Another consideration is whether any given project, when considered cumulatively with other anticipated new development, will contribute to a need for additional staff and other costs. These factors may justify adjustments to efficiency factors derived from the study of other jurisdictions.

The main reason to consider an adjustment factor is to account for that portion of a department's or budget unit's function that is fixed as compared to that portion of the cost that is variable. As new development occurs, new residents and employees could have little or no impact on the fixed portion of a department's fixed costs and may only impact that department's variable costs.

Table 2
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Comparison of Population, Persons-Served, Employee Equivalent Factors and Adjustment Factors

Item	Sacramento County	Sacramento	Stockton	Oakland	San Joaquin County	San Ramon
	Cordova Hills	Railyards	Bear Creek East	Oak to 9th Street	GPU (2029 Buildout)	Ryan Industrial Property
<u>Per Capita</u>						
Project Residential Population	24,250	22,529	6,132	7,798	337,800	125
Jurisdiction Population	1,438,790	467,343	292,515	414,100	694,293	74,378
Project as a % of Total	1.69%	4.82%	2.10%	1.88%	48.65%	0.17%
Employee Equivalent Factor	0.50	0.50	0.50	0.50	0.50	0.50
<u>Per Persons Served</u>						
Project Persons Served	27,210	27,975	6,355	8,356	365,850	125
City	-	612,333	344,601	517,650	-	96,318
Total Persons Served % of City	-	4.57%	1.84%	1.61%	-	0.13%
County	1,743,139	-	-	-	814,880	-
Total Persons Served % of County	1.56%	-	-	-	44.90%	-
Unincorporated County	667,496	-	-	-	-	-
Total Persons Served % of Uninc. County	4.08%	-	-	-	-	-
General Government Adjustment Factor	80%	50%	50%	25%	100%	Ranges 25% - 90%

Source: EPS

"eequiv"

The most common department functions to which an adjustment factor may be applied include the following “stand-alone” administrative/legislative functions:

- Management (e.g., city manager, county administrator)
- Clerk (e.g., city clerk, county clerk)
- Legislative function (e.g., city council, county board of supervisors)
- Finance
- Human resources
- Information technology

In addition to the above-listed functions, fiscal impact analyses also may apply an adjustment factor to the administrative functions for the following departments/functions:

- Law enforcement
- Fire protection and emergency medical services
- Parks and recreation, etc.

In these circumstances, while new development may cause each department to add additional employees for direct-service provision, the departments may not need to add another department head (e.g., Sheriff, Fire Chief, or department director).

Future County Personnel Costs

Another, perhaps less-quantifiable, consideration for an adjustment factor is the changing nature of employee contributions towards benefit costs. With increased costs, agencies are more commonly requiring new employees to fund a greater share of their benefits costs. As an example, in January 2011, the County approved an ordinance amending the CalPERS contract to adopt new standards for new County hires. In the staff report example, the County estimated the savings to the County for a new “Miscellaneous Plan” employee earning \$50,000 would be \$4,200—or approximately an 8.4-percent savings. The County would save \$5,900 for a new “Safety Plan” employee, or approximately 11.8 percent.

Correspondingly, one could assert the total agency cost for a new employee is less than the average cost of an existing employee. As such, the average cost-estimating methodology could be overstating a project’s impact on an agency’s operating budget. Obviously, this consideration is not just limited to the administrative/legislative department functions listed above. EPS is not suggesting an adjustment be included for this circumstance, but the circumstance could be part of the consideration for using an adjustment factor for certain functions as opposed to omitting the adjustment.

Findings

EPS has surveyed several fiscal impact analyses to examine whether the studies included an “adjustment factor,” and, if so, what factor was used for which department functions. **Table 3** identifies average cost adjustment factors that have been applied in other fiscal impact models that have employed an average-cost approach for expenditure impacts. The examples include both city and county fiscal models, as well as models prepared on an agencywide basis and for a specific project.

Scale of Project Compared to Size of Agency

Whether the impact of new growth has an impact less than or greater than a 1:1 impact would be influenced by the scale of the proposed project as compared to the size of the agency. For example, a new project with 1,000 new residents in a city of 150,000 residents would not have the same impact on certain department functions as a new project of 20,000 residents in a city of 30,000 residents.

As you can see in **Table 3**, adjustment factors used in similar project-based fiscal impact analyses range from an adjustment factor of 0.25 to a factor of 1.0. With one exception, an adjustment factor of 0.5 was used in cases where the population of the proposed project was anticipated to be less than 5 percent of the population of the jurisdiction. In the only other example where a project population was projected to be less than the jurisdiction, an adjustment factor of 0.8 was used. The one example included where the adjustment factor was set at 1.0 was for the San Joaquin County general plan fiscal impact analysis, where the anticipated population growth equated to an almost 50-percent increase in San Joaquin County's residents.

Recommendation

As described in the Project Description section, Project persons-served equals approximately 8 percent of the existing County persons-served. Given that relation between the proposed Project and existing County persons-served, EPS concurs that the suggested 0.75-adjustment factor be included in the Draft Project FIA for the following functions:

- Administrative & Legislative—Shared
- Administrative & Legislative
- Child Support & Other Justice
- Contribution to Public Safety
- Other Protection
- Other Protection (Shared)
- Environmental Health
- Human Services

Furthermore, given the Project's estimated persons-served as compared to the countywide population, EPS would support a closer examination and perhaps a greater adjustment factor for several individual general government budget functions that are rolled up into the County's Administrative & Legislative—Shared and Administrative & Legislative categories. For example, if some of the smaller individual functions were at an adjustment factor less than 0.75, then the overall adjustment factor of 0.75 might be lower when applied to the Administrative & Legislative functions on Draft Project FIA Table B.6.

Table 3 includes recommended adjustment factors for the Project. It is important to note, the adjustment factors suggested in this memorandum are specific to the Project, based on its location, size, and County service plan for the western County. The concept of using adjustment factors is recommended as a universal fiscal impact analysis practice, but EPS recommends the amount of adjustment by department function be examined on a case-by-case basis.

Issue 3—FIA Adjustments

When the County and City of Roseville (City) were negotiating a revenue-sharing agreement for the Sierra Vista Specific Plan (SVSP) project, both the City and County were using various sources of one-time revenues to maintain desired levels of service for given functions. During the fiscal modeling process, the City and County agreed that each side would include only those portions of one-time funding that accurately reflected net-City or net-County costs that would otherwise be funded via General Fund revenues but for the lack of such funding in that fiscal year (i.e., Fiscal Year [FY] 2009–10).

The Draft Project FIA includes \$7.2 million of "Internal Services Funds" costs and \$0.2 million in "Debt Service Funds" costs, predicated on the above-stated premise. By using these net costs, the Draft Project FIA includes approximately \$623,000 in estimated annual costs (in 2050), which represents approximately 2.5 percent of the total annual \$26.2 million in General Fund Project costs.

DPFG has requested each of these FIA Adjustments be removed from the Draft Project FIA, based on the following two reasons:

1. Including this line item is inconsistent with prior County fiscal impact analyses.
2. These funds (Internal Service and Debt Service) may not be affected by new development.

Findings

In most fiscal impact analyses, a line item under this heading typically is not included. The fact that it was in historical City and County fiscal impact analyses reflected circumstances of the Great Recession and the use of reserves and other one-time revenue sources to maintain a desired service level when General Fund revenue was lacking to do so. The fact that this line item is maintained in the Draft Project FIA, which is based on the County's FY 2011–12 budget, implies the County has continued to rely on reserves or other revenues for certain functions. The FIA Adjustments include one-time funding for operating functions and a single adjustment for capital costs.

Including the item "Debt Service Fund 190" in the FIA Adjustments highlights whether new development would have an effect on the County's General Fund contribution to debt service. One key question to answer is whether any of the County debt was incurred for capital improvements that otherwise would be funded through County capital facilities fees paid by new development such as the Project. If that were the case, then the costs may be considered duplicative and should not be included in the Draft Project FIA. Finally, it is important to note that any decision on the Debt Service Fund 190 also would apply to the "895350 Contribution to Other Debt Service," which is included in the Administrative & Legislative—Shared category of function.

Recommendations

Were the operational costs described above funded via General Fund revenues in FY 2011–12, the Internal Services Funds costs would have been accounted for in the various departments benefiting from such internal overhead services. Based on the foregoing, EPS concludes if the County has continued to maintain similar funding levels (for the service costs included in the FIA Adjustments) beyond FY 2011–12, funded by General Fund revenues in those subsequent years,

then it would be appropriate to include costs for the FIA Adjustments when using FY 2011–12 data.

However, use of an average-cost expenditure methodology for the FIA Adjustments is based on the assumption that the average cost would equal the marginal cost. Consequently, the County should apply an adjustment factor to these FIA Adjustments if an adjustment factor would have applied to the function for which the temporary, one-time funding was required. That way, if these costs were in their otherwise typical location when regularly funded by General Fund revenues, the adjustment factor would have applied to such costs.

The County's General Fund contribution to debt service is transferred into the Debt Service Fund 190 account, which funds annual debt service obligations for the following capital facilities:

- County Finance Administration Building
- Juvenile Detention and Jail Kitchen Facilities
- South Placer Justice Center

These facilities are included in the County's Countywide Facilities Master Plan, which identifies planned County capital facilities. The County has collected a countywide capital facilities fee (CFF) since its adoption in the early 1990's. The CFF, which is collected from new development, funds new development's proportional share of planned capital facilities. The County relies on other sources of funding, including the General Fund, to fund existing County population's share of the new facilities. Because new Project development would be funding its share of countywide facilities through payment of the CFF, EPS recommends eliminating the following line item entries from the Draft Project FIA:

- 89350 General Fund Contribution to Other Debt Service
- Debt Service Fund 190 (FIA Adjustment)

Issue 4—Functions with Negative Net-County Costs

In the Draft Project FIA detail on net-County costs, there are several individual cost functions that show a negative net-County cost. Examples of such functions include the following categories:

- Treasurer/Tax Collector
- Child Support Services
- Environmental Health
- Community Health

In certain cases, one or more cost functions may experience a negative net-County cost occasionally, but that circumstance typically is not repeated in numerous fiscal years. For example, in any given year, fee revenue may exceed costs; however, over the long run, a structural difference between fees and costs would be contrary to legal requirements for parity between those two items.

When the cost function is part of a larger category of net-County costs, the Draft Project FIA accounts for the negative net cost and allows the negative amount to offset costs in the overall function. For example, in the Administrative & Legislative—Shared function, the \$636,950

negative Treasurer/Tax Collector net-County cost reduces the total Administrative & Legislative—Shared cost function.

When the negative net-County cost is a stand-alone function, such as in the case with Environmental Health (negative \$440,534), the Draft Project FIA sets this cost to zero and does not derive a negative County multiplier for that cost function.

Findings

In a review of other fiscal impact models, there is no clear consensus for the way in which this issue is addressed. In many cases, negative net-cost functions are modeled as having no impact, and the negative amount is not counted in the analysis. In certain cases, the negative amount remains in the model and therefore underwrites a portion of the cost that otherwise would be applied through the average-cost methodology.

Recommendations

EPS concurs with the County's approach with the negative net-County costs as they are handled in each circumstance described above. When these situations arise, EPS typically consults with the jurisdiction and usually would include a zero net cost for any department/function that had a negative amount in any given budget year, unless that function were part of an overall larger budget unit where the negative from one area might underwrite or reduce the total cost for the total budget unit. As stated above, the reason is that the ability of a department/function to operate at a surplus for multiple years is atypical and not consistent with general law.

Issue 5—Expenditure Multipliers—Countywide and Unincorporated

County government provides services to two sets of service populations: countywide residents (including those that live in incorporated cities) and residents and employees in the unincorporated County. Examples of countywide functions include the following services:

- Environmental Health
- Health
- Human Services
- Education and Recreation
- District Attorney
- Detention
- Probation

Examples of unincorporated-only functions include the following services:

- Sheriff Patrol (assumed in urban services)
- Animal Control (with potential exceptions for contract services to municipalities)

Historically, the County's fiscal impact model has segregated functions that are 100-percent unincorporated, such as Sheriff Patrol costs, and derived service costs using the annual patrol expenditure divided by the service population in the unincorporated County (unincorporated residents and an equivalent for unincorporated employees [0.31 for public protection functions]). Similarly, for those functions that have been determined 100-percent countywide, the fiscal

impact model derives average-cost expenditures by dividing the net-countywide cost by countywide persons-served (residents and employee equivalents).

The area of disagreement in the Draft Project FIA relates to the allocation of countywide general government costs that are summarized under the following category headings:

- Administrative & Legislative—Shared
- Administrative & Legislative
- Contribution to Public Safety
- Other Protection
- Other Protection—Shared
- Contribution to Road Fund
- Police Protection—Shared

The Draft Project FIA divides the net costs for each of these functions into (1) countywide and (2) unincorporated by applying a percentage allocation for each to the net-County cost. From the FY 2011–12 budget, the Draft Project FIA calculated the following amounts:

Function	Countywide	Unincorporated	Total (millions)
General Fund	\$123.3	\$58.9	\$182.1
FIA Adjustments	\$7.4	\$0.1	\$7.4
Public Safety Fund	\$15.4	\$7.3	\$22.7
Total—All Funds [1]	\$146.1	\$66.3	\$212.4
Total—All Funds (as a %)	68%	32%	100%

[1] Totals may not sum because of rounding.

Table 4 compares the FY 2011–12 allocations with historical allocations between countywide and unincorporated costs for these general government functions. As shown, many of the General Fund and Public Safety Fund amounts are weighted more to the countywide population as compared to the unincorporated population. Generally speaking, the weighting toward countywide allocation has only increased over time for many functions, rather than decreasing or remaining constant. The table also illustrates the variability in these percentages over time and, as demonstrated in the Public Safety Fund, when department reorganization occurs, it can be more to compare future years against past years.

Findings

Without a very detailed auditing of the time and money spent for each department function on countywide versus unincorporated-only efforts, most fiscal impact analyses do not make an effort to apportion time spent by general government functions to countywide and unincorporated costs. In most County fiscal impact analyses with which EPS is familiar, a segregation of unincorporated-area costs is made when 100 percent of the effort is considered provided only to unincorporated residents, such as law enforcement patrol services.

Table 4
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Historical Countywide Cost Allocations

Item	Countywide Services Weightings [1]					
	Placer Vineyards	Sierra Vista & Creekview	Regional University	Placer Vineyards	Placer Ranch	West Roseville
Date of Fiscal Analysis	3/20/2013	8/27/2010	4/7/2008	6/6/2006	9/14/2006	11/1/2002
Placer County Function						
General Fund						
Administrative & Legislative - Shared	68%	70%	69%	69%	69%	66%
Administrative & Legislative	88%	87%	85%	85%	85%	27%
Child Support & Other Justice	100%	100%	100%	100%	100%	100%
Contribution to Public Safety	61%	67%	66%	66%	66%	100%
Other Protection	90%	77%	66%	66%	66%	32%
Other Protection - Shared	9%	9%	10%	10%	10%	32%
Environmental Health	100%	100%	100%	100%	100%	100%
Health	100%	100%	100%	100%	100%	100%
Human Services	100%	100%	100%	100%	100%	100%
Education and Recreation	100%	100%	100%	100%	100%	100%
Contribution to Road Fund	12%	12%	12%	12%	12%	12%
Fiscal Analysis General Fund Cost Adjustments	100%	100%	n/a	n/a	n/a	n/a
Debt Service Fund	68%	n/a	n/a	n/a	n/a	n/a
Public Safety Fund						
Detention and Correction	100%	100%	100%	100%	100%	100%
Judicial (District Attorney)	100%	100%	100%	100%	100%	100%
Police Protection - Less than Countywide [2] [3]	-	-	-	-	-	0%
Police Protection - Shared [2]	69%	67%	-	-	-	-
Protection and Prevention [2]	-	-	19%	19%	19%	100%
Administration [2]	-	-	45%	45%	45%	100%
Library						
Library Services	100%	n/a	100%	100%	100%	100%
Library Services - Less than Countywide	n/a	n/a	n/a	n/a	n/a	n/a
Public Ways and Facilities						
	12%	12%	12%	12%	12%	12%

"countywide"

Source: EPS and County

- [1] The countywide weighting is used to allocate total departmental costs between the unincorporated and countywide areas. Amounts shown are the Countywide percentages.
- [2] The Sierra Vista and Creekview Fiscal Analysis replaced the categories of Protection and Prevention and Administration with Police Protection - Less than Countywide and Police Protection - Shared.
- [3] For Sierra Vista and Creekview, includes Sheriff Grants, Administration, Patrol Support Services, and Criminal Justice CEO. For West Roseville, this category includes Sheriff's Department expenses.

For reference, EPS looked at the following county fiscal impact analyses:

- San Joaquin County—FY 2010–11
- Yolo County General Plan Economic Analysis—FY 2009–10 (prepared by Bay Area Economics)
- Yuba County General Plan Update Fiscal—FY 2010–11
- Cordova Hills Specific Plan Fiscal—FY 2010–11

Each of these analyses derived average-cost multipliers for functions that serve the entire county (countywide and unincorporated services) by dividing the total function net-county cost by the countywide persons-served (or per residents where appropriate). This methodological approach is very typical and could be considered an industry standard. It is possible the County is the only agency, or one of only a few, that models countywide and unincorporated expenditures in the method described.

Recommendation

EPS believes the more simple approach described above is typical and customary by industry standards and may lead to less discussion regarding the assumptions used to segregate the costs between countywide and unincorporated functions. For these reasons, EPS recommends using the more simplified calculation of service costs as described above.

Issue 6—Sales Tax Revenue Estimates

The Draft Project FIA estimates sales tax revenue by comparing the Project demand for retail space with the supply of commercial land uses that would generate sales tax revenues. The Draft Project FIA is based on the assumption that demand for taxable retail spending would be derived from the following sources:

- Project resident spending
- Project employee spending
- Spending by others outside the Project (capture)
- Business-to-business spending (not part of the methodology challenge)

The Draft Project FIA calculates sales tax revenues based on the total Project resident and employee spending assumed to be captured in the Project (approximately \$243 million). Retail sales beyond this Project-area demand will depend on capturing additional retail spending from the greater regional market area.

To account for this additional regional retail demand, the Draft Project FIA examined three “capture-rate” assumptions: no capture, moderate capture, and maximum capture, landing on the moderate capture as the operating assumption. Using this capture-rate scenario, total retail demand is estimated to total approximately \$428.0 million. The Draft Project FIA then evaluates what proportion of this retail spending is spent on taxable retail sales to compute total sales tax generated by the Project.

Because total Project retail supply could generate a maximum of \$783.0 million in total retail sales (based on estimated sales per square foot), the Draft Project FIA concludes that a significant oversupply of retail space exists and excludes potential taxable spending associated with that surplus retail space. DPFG questions the exclusion of these sales tax revenues,

recommending instead that sales tax revenues be computed based on the total retail space and associated taxable retail sales per square foot.

Findings

To derive estimates of total Project retail demand and taxable expenditures, the Draft Project FIA relied on the following assumptions:

- Total household income
- Proportion of household income spent on retail goods and services
- Proportion of total retail spending that is taxable
- Employee demand for retail goods and services
- Proportion of employee demand spent on taxable goods
- Percentage of Project employees residing outside the Project area
- Resident and employee retail demand captured in the Project area

EPS reviewed these assumptions and found the Draft Project FIA's conclusions regarding total demand generated by Project residents and employees generally falls within expected ranges and reflects typical industry standards and methods. EPS also conducted independent analyses to evaluate the potential oversupply of retail land uses, using these 3 approaches:

1. Comparison of Taxable Retail Demand and Supply
2. Regional Comparison of Retail Space per Capita
3. Regional Comparison of Taxable Sales per Capita

Comparison of Taxable Retail Demand and Supply

The County's evaluation of retail supply and demand focused on total retail sales. EPS undertook a similar analysis but instead focused on taxable retail supply and demand only. **Table B-1** shows the detailed Project taxable sales assumptions by nonresidential land use type. The analysis of taxable sales supply assumed the Commercial Retail, Commercial Mixed Use Retail, Business Park Retail and one-third of the Town Center Commercial Retail would average annual taxable sales of \$205 per building square foot. The remaining Town Center Commercial Retail along with the Power Center and Business Park/Power Center were assumed to generate annual taxable sales of \$349 per building square foot. If all Project retail space were constructed, annual taxable sales would total approximately \$642.1 million.

Table 5 compares the annual taxable sales per building square foot assumptions for the Project as compared to other recent Specific Plan projects within the Sacramento region. Only the Sierra Vista Specific Plan, which had more regional retail square footage, has a higher taxable sales per building square foot assumption. As calculated, this analysis assumes the Project's annual taxable sales would be approximately 10 percent higher than the average of the other plan area's shown. This higher amount reflects the amount of regional retail in the plan as compared to other plan areas.

Table 5
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Comparison of Taxable Sales per Retail Square Foot

Project	Base Estimates				Estimates in 2013 Dollars		
	Year of Estimate	Taxable Sales per Retail Square Foot	Retail Square Feet	Total Taxable Sales	Inflation Factor	Taxable Sales per Retail Square Foot	Total Taxable Sales
Placer Vineyards Specific Plan	2013	\$ 296	2,172,393	\$ 642,085,032	1.000	\$ 296	\$ 642,085,032
Other Plan Areas							
Sierra Vista Specific Plan	2010	\$ 317	1,938,148	\$ 613,498,581	1.067	\$ 338	\$ 654,745,146
Creekview Specific Plan	2010	\$ 171	170,000	\$ 29,070,000	1.067	\$ 182	\$ 31,024,426
Cordova Hills Special Planning Area [1]	2011	\$ 175	538,260	\$ 94,210,700	1.035	\$ 181	\$ 97,479,209
Sutter Pointe Specific Plan	2008	\$ 240	4,092,000	\$ 981,943,600	1.075	\$ 258	\$ 1,055,173,805
Marble Valley Specific Plan	2010	\$ 176	87,750	\$ 15,417,500	1.067	\$ 188	\$ 16,454,045
Sacramento Railyards Specific Plan	2007	\$ 261	1,539,366	\$ 401,537,151	1.114	\$ 291	\$ 447,467,359
Dunnigan Specific Plan [2]	2013	\$ 200	831,103	\$ 166,512,454	1.000	\$ 200	\$ 166,512,454
Average / Total Other Plan Areas			9,196,627			\$268	\$ 2,468,856,443

sales per sqft

- [1] Cordova Hills retail square feet reduced from the maximum authorization of 948,439 square feet to 654,860 to reflect a more realistic and conservative level of development. Further, the square feet shown in this table exclude service retail, such as hotels.
- [2] Dunnigan retail square feet reduced from the maximum authorization of 2,761,486 square feet to 831,103 to reflect a more realistic and conservative level of development.

Table 6 illustrates the results of this analysis as compared to that conducted as part of the Draft Project FIA. As shown, this analysis suggests that total plan area supply of taxable retail goods will be significantly greater than the total demand for taxable retail goods generated by Project residents and employees. According to this analysis, Project-area demand will generate approximately \$222.4 million in total taxable sales, leaving approximately \$419.7 million in additional Project sales that would need to be captured from demand outside of the Project.

Regional Comparison of Retail Space per Capita

EPS also evaluated the total retail building square feet per capita provided by Project land uses, as well as other neighboring (competing) plan areas. This evaluation, presented in **Table 7**, demonstrates that the Project proposes to provide approximately 24.5 square feet of neighborhood and community commercial uses per resident. The Project's per-capita supply of these neighborhood and community commercial uses is comparable to surrounding plan areas. However, Project retail land uses also include a substantial regional commercial component, totaling an additional 41.7 square feet of retail per capita. Of the other plan areas evaluated, only the SVSP proposes to provide a higher level of regional retail in addition to the population supporting neighborhood and community commercial. The Project and SVSP both front along Baseline Road and expect to capture regional demand at their planned regional commercial centers.

Regional Comparison of Taxable Sales per Capita

As another means to inform taxable sales estimates for the project, this analysis also examined taxable sales revenues per capita for several local jurisdictions. With 32,814 total residents at buildout, the Project would be slightly smaller than the existing cities of Lincoln and Rocklin. The table below compares the annual taxable sales and taxable sales per capita from the Draft Project FIA with the DPFPG peer review.

Item	Draft Project FIA	DPFPG Peer Review
Total Annual Sales Tax	\$3,476,500	\$5,993,000
Annual Sales Tax per Capita	\$105.95	\$182.64

As shown in **Table 8**, annual taxable sales per capita from several local jurisdictions ranges between \$65 to \$361. Only the cities of Roseville and Folsom have per capita averages greater than \$250, reflecting the significant amount of sales tax revenue capture each jurisdiction enjoys. The Draft Project FIA estimate would put the Project on the lower end of the range. Excluding Roseville and Folsom, the DPFPG peer review estimate would put the Project at the higher end of the range, on par with Loomis, which only has approximately 6,500 residents.

Table 6
Peer Review - Placer Vineyard Specific Plan Fiscal Impact Analysis
Comparison of Total and Taxable Sales Results

Item	Amount	
	HEG (Total Sales)	EPS (Taxable Sales)
Total Plan Area Supply	\$782,853,000	\$642,100,000
Total Plan Area Demand	\$243,000,000	\$222,400,000
Plan Area Surplus/(Shortfall) [1]	\$539,853,000	\$419,700,000
Surplus/(Shortfall) % of Total Supply	69%	65%

comp

Source: Hausrath Economics Group and EPS.

[1] Does not include potential retail sales capture from demand outside the plan area.

Prepared by EPS 3/31/2014

Table 7
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Comparison of Retail Building Square Feet per Capita

Project	Population	Building Square Feet			Building Square Feet per Capita		
		Total	Neighborhood and Community Commercial [1]	Regional Commercial	Total	Neighborhood and Community Commercial	Regional Commercial
Placer Vineyards Specific Plan	32,814	2,172,393	804,609	1,367,784	66.2	24.5	41.7
Surrounding Plans							
Regional University Specific Plan	7,577	219,978	219,978	0	29.0	29.0	0.0
Riolo Vineyard Specific Plan	2,303	88,000	88,000	0	38.2	38.2	0.0
Sierra Vista Specific Plan/Westbrook [2]	19,816	2,308,288	706,707	1,601,581	116.5	35.7	80.8
West Roseville Specific Plan - Westpark Plan & Fiddymont Farms	21,128	495,800	495,800	0	23.5	23.5	0.0
Elverta Specific Plan	12,633	195,236	195,236	0	15.5	15.5	0.0
Creekview Specific Plan [3]	5,108	187,907	187,907	0	36.8	36.8	0.0
Amoruso Ranch Specific Plan (proposed) [4]	7,722	358,100	358,100	0	46.4	46.4	0.0
Total Building Square Feet/Avg. Bldg. Sq. Ft. per Capita	109,101	6,025,701	3,056,336	2,969,365	55.2	28.0	N/A
Total Building Square Feet/Avg. Bldg. Sq. Ft. per Capita							
Excluding Placer Vineyards Specific Plan	76,287	3,853,308	2,251,727	1,601,581	50.5	29.5	N/A
Excluding High and Low Est.'s - Amoruso Ranch and Elverta)	88,746	5,472,365	2,503,000	2,969,365	61.7	28.2	N/A

sqft per capita2

[1] Includes Commercial Mixed Use and in PVSP 1/3 of the Town Center Commercial Retail.

[2] Business Professional and Mixed Use assumed to be 50% Office (not included in analysis), 50% Neighborhood and Community Commercial.

[3] All commercial assumed to have FAR=0.25. Community Commercial/Business Park assumed to be 50% Neighborhood and Community Commercial and 50% Office (not included in analysis).

[4] All commercial assumed to have FAR=0.25; Commercial Mixed Use assumed to be 1/3 Residential, 1/3 Community Commercial, and 1/3 Office (not included in analysis). Population assumes 3,040 dwelling units with an average of 2.54 people per household.

Table 8
Placer Vineyards Fiscal Impact Analysis
Sales Tax Revenue per Capita Comparison (FY 2013/14 Budget)

Jurisdiction	Sales Tax Revenue	Population	Sales Tax Revenue per Capita
Roseville	\$44,609,050	123,514	\$361.17
Rocklin [1]	\$8,416,200	58,484	\$143.91
Lincoln	\$2,816,335	43,818	\$64.27
Loomis[1]	\$1,203,151	6,493	\$185.30
Folsom [2]	\$18,555,686	65,000	\$285.47
Elk Grove [1]	\$19,701,098	159,074	\$123.85
Woodland	\$10,303,246	56,908	\$181.05

"sales_tax"

Source: FY 2013/14 budgets, DOF population estimates, and EPS.

[1] Total may include Prop 172 revenue. The amount of Prop 172 revenue that may be included is marginal compared to the total amount of sales tax revenue.

[2] The population estimate for Folsom is from the city. This estimate excludes the prison population.

Conclusions

Based on this analysis, EPS concludes that the Draft Project FIA correctly identified a potential oversupply of retail in the Project. Based on the analyses of taxable sales demand and retail square feet per capita, it appears that sufficient Project demand exists to support the neighborhood and community commercial uses, however there is not sufficient demand from Project demand alone to support the regional retail uses. Total taxable sales generation ultimately will depend on the degree to which the Project can attract retail spending by residents outside the Project area.

Table 9 compares demand and supply for Project retail uses (based on estimated annual taxable sales) with regional commercial uses separated into its own category along with estimates of potential demand captured from outside of the project. The outside capture is separated into capture of spending at neighborhood and community commercial uses and capture at regional retail uses. In addition to on-site retail uses, **Table 9** also includes an assumption for Project capture of approximately \$15.0 million in business-to-business sales assuming \$15 in taxable sales per building square foot across approximately 1.4 million square feet.

The Project is immediately north and west of the existing Dry Creek/West Placer Community, which is significantly underserved from a retail perspective. Because the Project's neighborhood and community commercial centers will draw from this demand, this analysis assumes approximately one-third of the demand for neighborhood and community commercial centers will come from outside of the Project.

For capture at the regional retail locations, this analysis includes the following capture scenarios:

- High Capture @ 70 percent
- Moderate Capture @ 60 percent
- Low Capture @ 50 percent

The capture percentages represent the percentage of total Regional Commercial supply the Project is likely to capture from outside non-Project driven taxable expenditures. Variables that should be considered when assessing how much regional demand the Project may capture include the following factors:

- **Regional Retail Spending by Existing Residents.** The Project's retail uses are located along a major commuter arterial and will be easily accessible to homeward-bound commuters. Commuters using this route may reside in the following locations:
 - North Sacramento
 - Dry Creek/West Placer (unincorporated Placer County)
 - Roseville
 - Rocklin
 - Lincoln

Table 9
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Comparison of Annual Taxable Retail Demand and Supply

Item	Formula	Neighborhood/ Community Commercial	Regional Commercial	Total
Plan Area Supply [1]	a	\$164,900,000	\$477,200,000	\$642,100,000
Plan Area Demand Residents [2]	b	\$110,000,000	\$112,400,000	\$222,400,000
Capture outside Project [3]		33%	Varies (low to high)	
High Capture	c = a * 0.70	\$54,900,000	\$334,040,000	\$388,940,000
Moderate Capture	d = a * 0.60	\$54,900,000	\$286,320,000	\$341,220,000
Low Capture	e = a * 0.50	\$54,900,000	\$238,600,000	\$293,500,000
Business to Business [4]	f	\$7,750,000	\$7,750,000	\$15,500,000
Total Estimated Annual Taxable Sales				
High Capture	g = b+c+f	\$172,650,000	\$454,190,000	\$626,840,000
Moderate Capture	h = b+d+f	\$172,650,000	\$406,470,000	\$579,120,000
Low Capture	i = b+e+f	\$172,650,000	\$358,750,000	\$531,400,000

"cptr"

Source: EPS, HEG and DPFG.

[1] See Table B-1

[2] Assumes approximately 2/3 of demand for Project NC/CC is from Project residents.

[3] Capture outside of Project for Regional Commercial uses varies by capture scenario.

[4] Assumed 50/50 split between NC/CC and Regional Commercial

Given this desirable location, the Project is well positioned to capture a significant portion of pass-by traffic. Preliminary analysis of existing retail demand and supply indicates the areas surrounding the Project's proposed retail uses may be substantially underserved, particularly the existing developed areas of north Sacramento County and Dry Creek/West Placer. For example, the area has a gap between consumer demand and retail outlets by as much as \$200 million annually across multiple retail categories. More than one half of this supply gap is in the general merchandise, apparel, furniture and other categories, which would span across all Project retail land use categories. Therefore, existing latent demand may comprise a significant amount of taxable spending at Project retail uses.

- **University Spending.** The Draft Project FIA accounted for potential student-generated retail demand from the proposed nearby Regional University Specific Plan. The Draft Project FIA did not, however, contemplate local retail expenditures by the university itself. A portion of annual campus expenditures on taxable goods such as furniture, fixtures and equipment, office supplies, and other demands would be expended in the local community. In other economic analyses completed by EPS, local campus communities may capture sales of taxable goods to the university of up to 25 percent of annual taxable spending by the campus.
- **University Visitor Spending.** Similarly, the Draft Project FIA's likely regional capture does not yet take account of potential expenditures made by visitors to the proposed university. Many campus-oriented communities experience a significant boost in spending on retail goods and services related to university visitor demand, which could improve the Project's ability to capture regional demand.
- **Timing and Phasing of Project Retail Development.** Given planned competitive supply located in surrounding plan areas, the performance of Project retail land uses will depend in part on the timing and phasing of Project retail development. If the regional commercial uses located in the SVSP precede Project retail development, the Project's ability to attract retail users and capture regional demand may be delayed or not fully realized.

Recommendations

For every fiscal impact analysis, EPS recommends completing a comparison of demand and supply to inform the amount of taxable sales that may be derived from the combination of project demand (spending by new residents and employees) and project supply (taxable sales at new project retail establishments, net of new resident and employee demand). This approach is a typical EPS practice in completing fiscal impact analyses. In rare cases, project proponents or jurisdictions commission a detailed market analysis to help inform the total amount of supportable retail space and thus taxable sales estimates.

Based on the above findings and discussion, EPS concludes it would not be fiscally prudent to include 100 percent of the sales tax revenue potential of Project retail land uses in the County fiscal impact model; although, it is common for jurisdictions to "overzone" retail land uses because of uncertainty regarding the timing and phasing of regional development and where retail land uses ultimately will absorb. The comparison of retail square footage per capita for new regional projects illustrates this practice. Given this circumstance, however, it can be appropriate for fiscal impact analyses to discount the sales tax revenue potential to maintain a conservative approach when estimating levels of taxable spending at project land uses.

When a quantitative analysis indicates there may be an oversupply of sales tax-generating land uses present in a project, EPS will typically examine a range of potential on-site sales capture scenarios. It is important to consider the range of potential outcomes, given how large sales tax revenues typically are of a jurisdiction's General Fund revenues.

Based on information gathered by EPS and on the quantitative and qualitative factors detailed above, EPS has determined the range of potential regional retail capture would be between 50 and 70 percent as shown in **Table 9**. In preparing an updated Project FIA, EPS recommends using the total taxable sales figure of \$579.1 million, which reflects a 60 percent capture for the Project's regional retail uses. Total taxable sales of \$579.1 million equates to approximately \$5.8 million in annual sales tax revenue (full one percent Bradley Burns), which equals approximately \$176 per Project resident. Using the average \$296 in taxable sales for each Project retail building square foot, the 60 percent capture scenario translates into the assumption that approximately 10 percent of the Project's retail commercial square footage may not be completed at Project buildout.

Additional Methodological Comments

This section includes additional comments to the Draft Project FIA, considered by EPS during review of the information. Comments in this section were not specifically addressed by the DPFG memoranda. Rather, the comments reflect EPS's familiarity with the model and suggestions for future consideration in County fiscal impact modeling.

Comment 1—General Fund Contribution to Public Safety

Annually, the General Fund makes a contribution to a variety of Public Safety functions. The County's fiscal impact model allocates this General Fund contribution to countywide and unincorporated service populations to derive average-cost multipliers for each.

Recommendation

The recommendation for future County fiscal impact modeling would be to carry a zero net cost in the General Fund, and to show the net-County costs funded by this General Fund contribution directly in the departments to where the funding was directed. For example, if one-quarter of the General Fund contribution to Public Safety went to the District Attorney's office, then the net-County cost for the District Attorney would equal the department's own net cost plus that amount funded by 25 percent of the contribution to public safety. EPS believes displaying the costs in the departments where the funding was directed would be easier to understand than the current approach.

Comment 2—Allocations of Charges to and from Departments

The County's fiscal impact model uses a very complicated system of calculations used to "reverse out" internal service fund charges to and from various County departments. Internal Services Funds typically are used to track the cost of certain general County departments that provide service to others. Typical examples include human resources, information technology, finance, administration, etc. As an example, in the County's budget, the Planning cost function may include annual costs allocated from certain general government functions (as noted above).

In the Draft Project FIA, these allocated costs are backed out of the Planning cost function and put back as a net cost in the department from which they originated. In this manner, if there is a different allocation of net-County costs between countywide and unincorporated service cost allocations in the Planning cost function, as compared to the originating department, net costs of a project may be over- or understated.

Recommendation

If the County elects to maintain the practice of allocating certain general government functions (e.g., Administration & Legislative—Shared) to both countywide and unincorporated service populations, then EPS recommends leaving the net-County costs in the department where they were “consumed” rather than in the department from which they originated. This enables the application of departmental efficiency factors, service population factors, and other items related to impacts on the department to apply to all costs associated with that department. This comment could be considered universally applicable to all future County fiscal impact analyses.

Comment 3—Create Greater Transparency between Baseline County Costs and Urban Services Costs

As the County has examined the fiscal impacts of several large master-planned communities in the southwest region of the County, great strides have been made regarding the distinction between “baseline” County services and “urban” services. It is not easy for a reader of fiscal impact analyses to understand the distinction between County baseline services and urban services. The County’s analyses typically have a table entitled “Service Populations for Per Capita Cost Analyses by Fund.” An expansion of this table, or creation of a like table, would be a helpful illustration of how baseline and urban services interface with one another.

Recommendation

In cases where a case-study approach is used to estimate urban services costs, EPS recommends the document include a clear roadmap as to which baseline County cost is being replaced by the urban services cost. For example, if there is a case-study estimate of municipal law enforcement costs, then the baseline County cost for Sheriff Patrol could be left in the fiscal model with a zero cost to demonstrate it has been replaced by another cost-estimating method. This comment obviously only applies to a project like the Project and would not be applicable to an analysis examining a city annexation of county property.

Comment 4—Consider Policy Direction Regarding Treatment of Existing Liabilities

The Draft Project FIA is consistent with other County fiscal impact analyses in that it includes average cost obligations for existing County liabilities: Other Post-Employment Benefits (OPEB) Liabilities.

A key consideration for these costs is that the County would continue to incur these obligations regardless of whether any new County development project moved forward. Considering that, one could assert that new development should not bear a share of such existing County liabilities. Conversely, if included as an expenditure multiplier in the County fiscal impact model, proponents of a new development project could demonstrate that by moving forward and

funding a proportionate share of these existing liabilities, the project has a fiscal benefit to the jurisdiction by amortizing the existing liability across a wider funding base.

Recommendation

EPS does not have a specific recommendation regarding this comment. The issue of ongoing pension liability obligations is one that most public agencies are facing, and there is no clear policy direction or guidance on how the issue might be handled with the use of a fiscal impact analysis tool. At the County's discretion, the Board of Supervisors may consider providing policy guidance to staff about whether all or a portion of these costs should be considered to be impacted by new development. A variety of valid points can be made to justify their inclusion or exclusion as costs that would be impacted by new development—some of which are presented in this memorandum. Future policy direction would provide clarity regarding the County's preference on the treatment of these costs in future fiscal impact analyses. Further examination of exactly what is included in the Debt Service Funds would help to clarify whether future development is likely to create an increase in that category.

Comment 5—Assessed Value and Property Tax Revenue Assumptions

All dollar values in the Draft Project FIA are in constant 2012 dollars. By modeling revenues and expenditures in constant dollars, the Draft Project FIA implicitly is based on the assumption that revenues and expenditures will keep pace with one another in future years (e.g., each would grow by the rate of inflation).

The Draft Project FIA is consistent with prior County fiscal impact analyses in that the County fiscal impact model is based on the assumption that assessed values and, in turn, property tax revenues will lose ground against inflation over time. The County describes the effects of Proposition 13 and its limits on real property assessed-value increases (capped at 2 percent, until such time as a property changes hands) as the main reason for this modeling practice.

This approach of forecasting the future rate of assessed value growth and discounting those values back to present-day dollars is contingent on several assumptions. Whether assessed values lag behind, keep pace with, or outpace inflation (i.e., the implicitly assumed rate of growth of expenditures) is highly sensitive to modeling assumptions regarding annual property appreciation rates, property turnover rates, and the rate of inflation.

EPS also is aware of fiscal impact analyses that are based on the assumption there would be a real rate of property tax revenue growth (i.e., the rate of growth in property tax would outpace typical inflation). While this situation may occur, EPS typically opts for a more conservative constant-dollar-value approach.

Recommendation

Given the difficulty in predicting these variables and the sensitivity of results to the assumptions, EPS, in most cases, has opted for a much simpler method of modeling today's assessed values to estimate property tax revenues. Using current assessed values in constant dollars presumes future property tax revenues would change proportionally with future expenditures. EPS recommends the County consider employing this more simple method for the Project.

105

Re-examining this methodological approach is important, given the already relatively low share of General Fund property tax available in the Project and the fact that General Fund property tax represents approximately 45 percent of the total General Fund discretionary revenue from the Project.⁵ This comment is an example of a modeling suggestion the County could apply universally to all future fiscal impact analyses.

⁵ Project FIA with Urban Services Draft Memorandum, prepared by HEG, dated November 14, 2013, page 20.

APPENDICES:

Appendix A: Persons-Served Memorandum

Appendix B: Retail Sales Analysis



APPENDIX A:
Persons-Served Memorandum





**Economic &
Planning Systems**

*Public Finance
Real Estate Economics
Regional Economics
Land Use Policy*

DRAFT MEMORANDUM

To: EPS Staff

From: Richard Berkson, Richard Davis, and Janelle Santos

Subject: Overview of EPS's Persons Served Methodology

Date: June 25, 2008

INTRODUCTION

Fiscal impact analyses commonly use a "persons served" factor, also referred to as a "daytime population" factor, to calculate the impact of proposed nonresidential development on revenues and expenditures. This factor is often used for projects that include a significant commercial component. It is also used in cases where detailed service demand analysis is not appropriate, but rather a more simplified approach is suitable. The purpose of this memorandum is to define the persons served concept and explain Economic & Planning Systems, Inc. (EPS)'s methodology for applying the persons served factor.

OVERVIEW OF PERSONS SERVED METHODOLOGY

The *persons served factor* assumes that businesses (and their employees) have an impact on many services, but at a lower level than residential development's impact. Total "persons served" is equal to total residents plus a percentage of total employees.

There are many variables that could influence service demands and corresponding fiscal costs, including the type of service, location, type of retail, and residential demographics. Typically a "persons served" methodology is used in fiscal analyses where those variables are not known, and the results are interpreted as a rough approximation of residential and nonresidential service demands.

The persons served factor is generally based on the time spent by residents and employees in a given jurisdiction. As the table below shows, employees can spend from

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.25 to .50 of the time spent by residents in a given jurisdiction. Accordingly, the persons served factors applied by consultancies typically fall in this range.

On the average, EPS applies a persons served factor of .50 for employees. This factor assumes that employees are in a given jurisdiction about 8 hours per workday compared to 16 hours for residents. It does not account for residents who work or do not work in a given jurisdiction. Theoretically, other factors could account for a different proportion of time spent in an area (e.g., weekends, vacations, weekend employment, etc., however, the "gross" nature of the "population served" measure is imprecise, and should not be over-analyzed. If more precise estimates are required, then a "calls for service" type of approach should be utilized.

Calculation of Persons Served Employee Factor

Item	Hours Per Week		Employee Factor	Rounded to nearest .05
	Residents	Employees		
Residents = 24 hours per day/7 days per week	168	40	0.24	0.25
Residents = 16 hours per day/7 days per week	112	40	0.36	0.35
Residents = 16 hours per day/5 days per week 24 hours per day/2 days per week	128	40	0.31	0.30
Residents = 16 hours per day/5 days per week	80	40	0.50	0.50

"employee_factor"

Source: EPS.

APPENDIX B:

Retail Sales Analysis



Table B-1	Estimated Taxable Sales from Retail Space—County
Table B-2	Summary of Retail Taxable Sales Capture
Table B-3	Estimated Retail Spending by Project Households
Table B-4	Estimated Annual Taxable Sales from Nonresidential Uses

Table B-1
Peer Review - Placer Vineyards Specific Plan Fiscal Impact Analysis
Estimated Taxable Sales from Retail Space (2013\$) - County

Item	Formula	Assumptions	Square Feet	Buildout
Annual Taxable Sales per Square Foot [1]				
Commercial Retail	<i>a</i>	\$205	370,260	\$75,888,039
Commercial Mixed Use Retail	<i>b</i>	\$205	148,486	\$30,433,510
Town Center Commercial Retail [2]	<i>c</i>	\$205	222,156	\$45,532,823
Town Center Commercial Retail - Power Center/Regional	<i>d</i>	\$349	444,312	\$155,005,356
Business Park Retail	<i>e</i>	\$205	63,707	\$13,057,309
Power Center	<i>f</i>	\$349	653,400	\$227,949,053
Business Park/Power Center Retail	<i>g</i>	\$349	270,072	\$94,218,942
Subtotal Annual Taxable Sales from On-Site Retail Development	$h = \text{sum}(a:g)$		2,172,393	\$642,085,032
Less Total Annual Taxable Sales From Market Support	<i>i</i>			\$222,400,000
Difference - Annual Taxable Sales net of Project Market Support	$j = h - i$			\$419,685,032

"retail_space"

Source: U.S. Department of Labor Bureau of Labor Statistics; Urban Land Institute; EPS.

[1] Based on an analysis of data from ULI's Dollars & Cents of Shopping Centers; 2008. Annual sales per square foot figures in 2008 dollars were inflated to 2014 dollars using the Consumer Price Index for California, All Urban Consumers, to arrive at taxable retail sales revenue.

Assumptions	Annual Sales per Sq. Ft. (2008\$)	Annual Sales per Sq. Ft. (Inflated to 2013\$)	Taxable Retail Sales Factor	Annual Taxable Sales
Neighborhood Commercial/Mixed-Use Retail	\$395	\$436	47%	\$205
Community Commercial	\$395	\$436	80%	\$349

[2] Assumes 1/3 of TC Commercial Retail is neighborhood/community and 2/3 is regional commercial.

Table B-2
Peer Review - Placer Vineyard Specific Plan Fiscal Impact Analysis
Summary of Retail Taxable Sales Capture (Rounded)

Item	Residential Demand		Nonresidential Demand [1]		Total Amount
	Percent	Amount	Percent	Amount	
Total Demand	100%	\$286,000,000	100%	\$8,800,000	\$294,800,000
Project Capture	75%	\$214,500,000	90%	\$7,900,000	\$222,400,000
Leakage	25%	\$71,500,000	10%	\$900,000	\$72,400,000

"summary"

[1] Total demand shown was discounted by 50 percent from gross total estimated worker spending to account for the fact that some workers may also be residents.

Table B-3
Peer Review - Placer Vineyard Specific Plan Fiscal Impact Analysis
Estimated Retail Spending by Project Households

Retail Category	Household Spending by Income Category								Project Total			Percentage of Total Retail Expenditures	Percentage of Taxable Retail Expenditure
	\$30,000 to \$39,999	% of Total	\$50,000 to \$59,999	% of Total	\$80,000 to \$99,999	% of Total	\$100,000 to \$119,999	% of Total	Annual Retail Expenditures	Annual Expenditure per Household	% of Total Income		
Taxable Retail Category													
Motor Vehicle and Parts Dealers	\$3,042	8.7%	\$4,514	8.0%	\$5,669	7.1%	\$6,689	6.7%	\$71,292,557	\$5,470	7.1%	21.1%	24.9%
Furniture and Home Furnishings Stores	\$320	0.9%	\$475	0.8%	\$652	0.8%	\$723	0.7%	\$7,911,147	\$607	0.8%	2.3%	2.8%
Electronics and Appliance Stores	\$951	2.7%	\$1,411	2.5%	\$1,759	2.2%	\$2,027	2.0%	\$21,990,594	\$1,687	2.2%	6.5%	7.7%
Bldg. Materials & Garden Equip. & Supplies	\$888	2.5%	\$1,318	2.3%	\$1,664	2.1%	\$1,886	1.9%	\$20,647,163	\$1,584	2.1%	6.1%	7.2%
Food and Beverage Stores [1]	\$298	0.9%	\$443	0.8%	\$573	0.7%	\$621	0.6%	\$6,979,691	\$535	0.7%	2.1%	2.4%
Health and Personal Care Stores	\$494	1.4%	\$734	1.3%	\$848	1.1%	\$1,057	1.1%	\$11,032,325	\$846	1.1%	3.3%	3.9%
Gasoline Stations	\$1,985	5.7%	\$2,946	5.2%	\$3,441	4.3%	\$3,802	3.8%	\$43,050,881	\$3,303	4.3%	12.8%	15.1%
Clothing and Clothing Accessories Stores	\$1,001	2.9%	\$1,486	2.6%	\$2,153	2.7%	\$2,302	2.3%	\$25,564,639	\$1,961	2.6%	7.6%	8.9%
Sporting Goods, Hobby, Book, & Music Stores	\$481	1.4%	\$714	1.3%	\$855	1.1%	\$1,002	1.0%	\$10,828,355	\$831	1.1%	3.2%	3.8%
General Merchandise Stores	\$962	2.7%	\$1,428	2.5%	\$1,682	2.1%	\$1,910	1.9%	\$21,182,716	\$1,625	2.1%	6.3%	7.4%
Miscellaneous Store Retailers [2]	\$85	0.2%	\$126	0.2%	\$168	0.2%	\$183	0.2%	\$2,038,361	\$156	0.2%	0.6%	0.7%
Food Services and Drinking Places	\$1,742	5.0%	\$2,586	4.6%	\$3,517	4.4%	\$4,133	4.1%	\$43,505,129	\$3,338	4.4%	12.9%	15.2%
Subtotal, Taxable Retail Goods	\$12,250	35.0%	\$18,179	32.2%	\$22,981	28.7%	\$26,336	26.3%	\$286,023,558	\$21,943	28.6%	84.8%	100.0%
Non-Taxable													
Food and Beverage Stores [1]	\$2,308	6.6%	\$3,726	6.6%	\$4,374	5.5%	\$4,844	4.8%	\$51,435,771	\$3,946	5.2%	15.2%	
Total Annual Retail Expenditures	\$14,558	41.6%	\$21,905	38.8%	\$27,356	34.2%	\$31,181	31.2%	\$337,459,329	\$25,889	33.8%	100.0%	
Annual Retail Expenditures Captured in Placer County [3]								75.0%	\$253,094,497				
Assumptions													
Weighted Average Household Income [4]	\$35,000	—	\$56,500	—	\$80,000	—	\$100,000		\$76,596	—	—		
No. of Households by Income Category	1,303	—	2,238	—	6,150	—	3,343		13,034	—	—		

Sources: BLS, 2012 Consumer Expenditures Survey; IMPLAN 2012; and Economic and Planning Systems, Inc.

*retail_spend"

[1] Category includes non-taxable food (88-90%) and taxable grocery-store purchases (10-12% of total purchases).

[2] Includes florists, gifts, novelties, souvenir stores, stationery, and office supplies.

[3] Estimated capture rate for Placer County.

[4] Household incomes based on HEG analysis.

114

Table B-4
Placer Ranch Fiscal Impact Analysis
Estimated Annual Taxable Sales from Nonresidential Uses

Item	Assumptions	Total
Annual Taxable Sales from New Employees		
Taxable Sales from New Employment		
New Employees		7,351
Average Daily Taxable Sales per New Employee	\$10.00	
Work Days per Year	240	
Taxable Sales from New Employees		\$17,642,400
Adjusted Total [1]	50% of total	\$8,821,200
Est. Retail Capture Rate in County		90%
Total Taxable Sales from New Employees		\$7,939,080
Business-to-Business Taxable Sales		
Office Square Feet	1,380,690	
Taxable Sales per Square Foot	\$15.00	\$20,710,350
Est. Retail Capture Rate in County		75%
Subtotal Business-to-Business Taxable Sales		\$15,532,763
Total Annual Taxable Sales from Nonresidential Uses		\$23,471,843
		"nonres"

[1] Total adjusted by 50% to account for the fact that some employees are residents for which the demand already has been estimated.

EPS Recommended Adjustment Factors

Budget Category	Recommended Adjustment Factor
General Fund	
Administrative and Legislative	
Board of Supervisors	50%
Clerk of the Board	50%
County Executive Office	75%
Community and Agency Support	75%
County Counsel	75%
Personnel	75%
Facility Services Building Maintenance	75%
Administrative Services	50%
Facility Services Administration	75%
Employee Benefits	75%
Organization Development Division	50%
Contribution to other debt service	0%
Appropriation for Contingencies'	100%
Auditor – Controller	75%
Treasurer – Tax Collector	75%
Assessor	75%
Economic Development	75%
Public Works Administration	75%
Public Works NPDES	75%
Justice and Public Safety	
Child Support Services	75%
Criminal Justice Other Programs	75%
Contribution to Public Safety	n/a
Other Protection	
Building Inspection	75%
Agricultural Commission/Sealer	75%
County Clerk – Recorder	75%
Emergency Services/Community Outreach	75%
Disaster Response/Recovery	75%
Domestic Animal Control	75%
Engineering & Surveying	75%
Planning Department	75%
Community Development Resource Agency	75%
Environmental Health	
Environmental Health	100%
Health	
HHS Administration and MIS	75%
Community Health	75%
Adult System of Care	75%
Community Clinics	75%
Children	75%
S System of Care	
GF Contribution Health & Human Services	75%
Human Services	
Client and Program Aid	75%
Human Services	75%
Veteran's Services Officer	75%
Education & Recreation	
Farm Advisor	75%
Parks & Grounds Maintenance	75%
Placer County Museum	75%
Public Ways & Facilities	

GF Contribution to the Road Fund	100%
Public Safety Fund	
Detention and Correction	
Jail Corrections & Detention	100%
So. Placer Jail Corrections & Detention	100%
Probation Officer	100%
Judicial	
District Attorney	100%
Police Protection	
Sheriff Protection & Prevention	Urban level of service calculated
Sheriff Tahoe Operations	Urban level of service calculated (if applicable)
Administration	
Sheriff Grants	100%
Sheriff Administration	100%
Patrol Support Services	100%
Criminal Justice CEO (Contingencies)	100%
Library Fund	
County Library	100%
Public Ways & Facilities (Road Fund)	
Engineering	100%
Road Maintenance	100% (urban level of service for project road maintenance calculated separately)

